Eugene P. Thomas

Unemployed Farm Land

"The interests of American agriculture and industry are alike in their absolute dependence upon the buying power both of the American people and those of foreign countries. . . . Crop curtailment in the case of cotton and tobacco has incited other countries to grow these in greater quantity, resulting in greater unemployment on our farms, and loss of foreign markets. Sufficient compensation for this loss is not found in higher farm commodity prices, indemnity for non-production, and doles to the unemployed. The farmer must be convinced that his future prosperity is bound up with his ability to recover markets abroad for his large surpluses, on which he must rely for his final profits, without Government subsidy.

"Our home market is not capable of absorbing or consuming all that the nation produces. About eight million people in the United States are directly dependent for a livelihood on our export trade alone. Several million more are employed in the handling and distribution of our imports. Public opinion which molds our laws should have a clear perception of what our foreign trade means in increased national prosperity."—Eugene P. Thomas, president, National Foreign Trade Council.

PAGE ONE

Treasury Financing

In the ordinary course of events, barring accidents and excepting the usual run of 90, 180 and 270 day bills, there will be no more Treasury financing until September 15, when $514,066,000 of Treasury 1.5 per cent notes become due. Whether the September financing will include coverage of the $357,921,200 of 2¾ per cent notes due December 15 is uncertain; probably not, but since the June financing reached ahead to August 1 in its refunding a similar course may be followed in September. At all events, the September financing is likely to be large since, with all the money now in hand, the Treasury must provide for a deficit in the next fiscal year estimated at little below that of the year now closing.

As a matter of fact, the long term refunding program in the next 18 months is comparatively limited. On February 15, 1937, there will be $428,730,000 in 3 per cent notes due; on April 15 following there will be a batch of $502,361,900 of 3 per cent notes due and on September 15, 1937, some $817,483,500 of 3¼ per cent notes will mature. That is the refunding program for next year. Approximately $1,700,000,000 is a considerable program but with three bites to the cherry it seems unimportant compared with the $2,130,896,850 of new and old financing actually allotted in the June 15 offering—the greatest peace time public financing in one offer in the country's history.

No doubt the lightening of the long term refunding load during next year will result in turning some of the short term Treasury bills into long term obligations. For one thing, such a course must be followed if the short term debt is not to get entirely out of control. Also, the investing public, largely the banks, indicated in both the March and June financing that long term obligations are preferred. The reason for this preference is the need of assets that earn something more than an elongated decimal fraction on a bank's books. In the June financing the holders of the $1,050,754,000 of Treasury notes maturing June 15 and August 1 accepted $956,130,700 in new 2¾ per cent bonds for them as compared with $68,735,000 offered in exchange for the new 1⅜ per cent notes. The offering of $600,000,000 in 2¾ per cent bonds and of $400,000,000 in 1⅜ per cent notes for new money was oversubscribed, as was anticipated, the oversubscriptions indicating a considerable preference for the longer term obligations. Actual allotments for the two issues were $670,807,150 and $435,223,500, respectively. The occasion for the low rates and heavy oversubscriptions is, of course, the overwhelming amount of unused funds in the banks.

Excess Reserves

The Treasury's plan to keep down excess reserves by maintaining balances of not less than half a billion dollars in the Reserve banks can probably be followed successfully until well into September. Drawing upon its deposits in commercial banks to meet demands for bonus payments and other expenditures in excess of income ought not to change the excess reserve situation materially under this plan, but, of course, when the time comes to draw upon the balances in the Reserve banks, deposits and excess reserves in the commercial banks will rise rapidly. So far as available bank credit and depressed interest rates are affected by the situation it matters little whether the unused funds are to the credit of the commercial banks or the Treasury, so long as the excess funds are anything like their present volume. That condition promises to continue indefinitely.

Apparently it is the desire of the Federal authorities to keep the excess funds of the commercial banks between $2,500,000,000 and $3,000,000,000. As a proposition in totals, a billion dollars of excess reserves would probably be quite as effective in keeping down interest rates and maintaining an easy money condition, but it is to be remembered that not all banks are in the same position in the matter of unused funds and a sharp reduction in totals may easily force many banks to borrow from the Reserve in order to serve their customers properly.

A recent survey by the Reserve banks, however, indicates that excess reserves are probably more evenly distributed in various classes of banks than they ever have been before.

Deposit Insurance

On or before July 15, this year as in all other years, every bank which has been a member of the Federal Deposit Insurance Corporation for six months or more must file with the corporation its certified (Continued on page 5)

BONDS

RAIL BONDS LEAD ON RISING MARKET

Trading Pace Shows a Wider Speculative Interest as Sales Expand to $10,754,500.

CORPORATE LIST ACTIVE

Government Loans Are Slightly Higher—Foreign Issues Up, Led by Polish.

BOND MARKET INFORMATION

One of the most important sources of information in regard to the bond market happens to be also the most accessible. It is the newspaper. Here, for those who read carefully and understandingly, is presented each day the background of the investment market — the events, national and international, that shape its trend. Likewise, the daily paper prints information of immediate interest about bonds: quotations, announcements of new issues, money developments, and usually a brief analysis or discussion of what the current market is doing.

In addition, there is a substantial literature on subjects relating to investments. The list of publications is long and varied, but the following partial bibliography may be useful:

Present Day Banking, published by BANKING, 1936; *The Problem of Investment*, F. I. Shaffner (Wiley, 1936); *Investment Fundamentals*, Roger Babson (Harper, 1936); *The International Money Markets*, John T. Madden and Marcus Nadler (Prentice-Hall, 1935); *Determinants of Investment Practice*, Edmund Brown (Macmillan, 1934); *Investment Principles and Practices*, Ralph E. Badger and Harry T. Guthmann (Prentice-Hall, 1936); *Security Analysis*, Benjamin Graham and David L. Dodd (McGraw-Hill, 1934); *How Banks Buy Bonds*, Bernhard Ostrolenk and Adrian M. Massie (Harper, 1932); *Embarrassing Dollars*, A. R. Horr (Harper, 1935); *Federal Securities Act Procedure*, J. K. Lasser and J. A. Gerardi (McGraw-Hill, 1934).

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

JULY 1936

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(Continued from page 1)

statement showing its average total deposits less uncollected items for the six months ending June 30, as shown by the average of daily balances. Within 60 days the banks must remit to the insurance corporation, as the premium for insurance, $\frac{1}{2}$ of $^{1}/_{12}$ of 1 per cent of their daily average of deposits.

Uniform Accounting

The Securities and Exchange Commission's system of uniform accounting methods for mutual service companies and subsidiaries of holding companies in the public utility field goes into effect August 1. The new system is not applicable to operating companies or companies which merely perform incidental services for other concerns and is, in fact, limited to the relation of corporations which, under the Public Utility Act of 1935, are required to service their associate companies at cost. Something else which the new system accomplishes, however, is to point out that a simplified and uniform accounting system for all corporations floating securities on American markets would do much toward ending many abuses of the public's confidence.

Cooperative League

The tenth Biennial Congress of the Cooperative League of the United States of America is to take place in Columbus, Ohio, on October 8, 9 and 10. On those dates representatives of some 2,000,000 organized consumers will inquire into the whys and wherefores of what is the matter with them and what they propose to do about it. Cooperatives in this country now fill a field ranging from a humble credit union to cooperative insurance companies, apartment houses, hospitals, mills and the like, embracing almost all principal lines of business or service in which the consumer is directly interested. There are cooperatives in the United States doing an annual business of around $100,000,000. Even college campus cooperatives do an annual business of close to $3,000,000. Such organizations, of course, have considerable banking business.

Rail Improvements

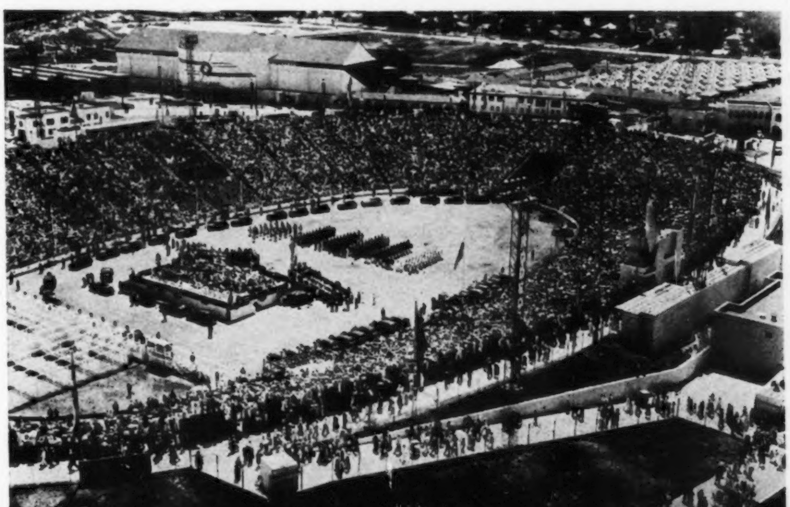
The railways are expected to use 50,000,000 new cross ties this year, an increase of one-eighth over the number used last year. This is merely one item in a long list of prospective railway betterments which mean much for business.

Bonus

Under the arrangements made for cashing the veterans' bonus bonds, it may be well into July before the actual demand for money in lieu of the bonds can be registered, and the full effect on trade and bank deposits will probably not be known until well into the Summer. It is expected, however, that the most immediate effect from a banking standpoint will be such an increase in deposits and, of course, excess reserves as will again bring forward the matter of controlling the great available mass of bank credit.

TALKS ON HISTORY

President Roosevelt, at the time of the Republican Convention, while Congress was in recess, made a tour through the Southwest and into Indiana to dedicate memorials and attend historical celebrations. Below, the scene during the President's visit to the Texas Centennial celebration in Dallas



PICTURES

Tourist Influx

The latest estimates indicate that tourists from Europe visiting the United States this year will number at least half again those of last year. The prospective increase is due largely to the amplified buying power of foreign moneys in terms of the dollar. Among other reasons, also, are lower railway fares.

Silver

There is, of course, no reason why the Treasury should not shift its purchases of silver to the open markets of the world at any time, but its agreements with practically all the silver producing nations point to the probability that all its buying hereafter will be under such agreements. The plan means comparatively stable and fair prices and a minimum of speculation.

$10,000,000 for Housing

Just when the $10,000,000 advances authorized by the R.F.C. Mortgage Company for large scale housing projects under insurance of the F.H.A. will actually be made is somewhat uncertain. However, the authorization is the first under the rather optimistic plans announced over a year ago and as such is interesting if not important.

Steel Price Increase

The increase of $2 a ton in prices of steel set for July 1 has led to less anticipatory buying than was expected. For one reason, consumers, especially the automobile companies, have found that the cost of double handling, storage, financial outlays, and the like, is such that it hardly pays to buy ahead against so small an advance. Meanwhile, the outlook for steel continues unusually good.

Auto Financing

The aggregate of new automobile financing this year is running between 50 and 60 per cent above the corresponding period of last year, with the new model season yet to come. It is worth noting that the proportionate increase in instalment financing this year is larger than the proportionate increase in production and sales of new cars.

National Income

If the increase in national income during the first quarter of the current year is maintained, it is estimated by the Alexander Hamilton Institute that the income of the American people in 1936 will aggregate $58,000,000,000. That is a long way from the $81,000,000,000 income of 1929, but it has the merit of being more in hand and less on paper.

Cuban Loans

It is quite probable that sometime in the future the government of Cuba will consolidate and refund its outstanding indebtedness, but it will be indefinitely in the future. There can be no hope whatever of floating a new loan in the American or any other market so long as present loans are in default. Also, several of the principal items of Cuban revenue are pledged to the service of specific loans, and holders are not likely to (Continued on page 8)

BONUS

On June 15, the Government began delivery by registered mail of more than $1,500,000,000 in bonus bonds to veterans of the World War, closing an 18-year struggle over payment. Below is an extra postal clerk sorting a few of the bonds

PICTURES

(CONTINUED FROM PAGE 6)

release their collateral in view of the republic's present financial situation. Meanwhile, the Cuban debt, floating and funded, has reached the vicinity of $250,000,000.

LAND BANK BONDS

The refinancing of $83,125,140 of 4¼ per cent land bank bonds, callable on July 1, by a new issue of 3 per cent consolidated obligations has been expected ever since the successful refunding of $180,000,000 of individual bank bonds last April, so that the announcement has caused no surprise. The next possible refunding of the higher coupon issues of the banks comes early next year, an issue of $33,381,840 4¼'s being callable on January 1 and another of $105,944,160 on May 1. A $14,000,000 issue of 4¼'s is callable in 1928, while about $29,000,000 of 4 per cents are callable next year and a $22,000,000 issue in 1938. Thereafter bonds of the banks will be practically upon a 3 per cent basis and that rate is likely to be the maximum hereafter.

MARGINS

Congressional leaders admit that the next Congress will probably be more sympathetic towards proposed revision of margin requirements on stock exchange transactions, with the result that the powers and policies of the Federal Reserve Board in that line may be considerably curtailed. The development of sympathy is expected to result from the increasing stagnation on the markets and the disposition of traders to look into the facilities of other markets. Time was when a margin was designed to protect a dealer's loans to carry his customers. On this theory a margin of 55 per cent to cover a loan of 45 per cent seems rather out of line. The present theory is that a margin is a means to curtail the use of credit in speculation.

T.V.A. CASES

It is doubtful if final court decision on the new suits brought by utility companies against the Tennessee Valley Authority can be had before well into next Winter. Considerable uncertainty as to the future prospects of some utilities is inevitable in the meantime, but it is significant that much of this uncertainty is discounted. It may be well to point out that the new suits are based upon claims for actual damages suffered by the companies concerned. The cases will be decided upon their merits and not upon technicalities.

AUTOMOBILE COSTS

Higher steel prices announced for the next three months are leading many authorities to expect an advance in automobile prices in the near future. Undoubtedly the cost of materials is going up—not only steel, but rubber, glass, cotton and many other of the commodities that go into cars. Higher prices for the finished automobile, however, do not necessarily follow. Increased output will probably much more than counteract higher costs of materials by reducing proportionate overhead.

There is constant improvement in processes and the savings effected in the manufacture and installation of various motor car parts is little short of marvelous.

Besides, the automobile manufacturers have had some experience with price raising. They tried it for a few months in 1934 and the crimp the experiment put in their sales taught a very valuable lesson. As in all industry, the prosperity of the automobile manufacturers depends upon a constantly increasing output, or a steadily maintained high output, at constantly lower costs.

TIRE PROFITS

For the first time in years the tire manufacturing business seems to be on the way to prosperity. There was an advance of 10 per cent in prices early in May and this is expected to be followed by a similar, though perhaps slightly less, advance early in July.

THE FLEET IN THE PACIFIC

Admiral O. G. Murfin of the U. S. Asiatic Fleet is greeted by Admiral Osamu Nagano in the latter's office in Tokyo, during a visit by the American fleet to Japan. U. S. warships have been sent to the scene of threatened conflict in China between the Canton and Nanking governments

WIDE WORLD

N. Y. STATE BANKERS

Raymond N. Ball was elected president of the New York State Bankers Association at the organization's Lake George convention. Mr. Ball is president of the Lincoln-Alliance Bank & Trust Company, Rochester, N. Y.

Even so, the consumer can hardly complain of prospective costs.

FEDERAL COTTON

There is no longer serious doubt that the Government will succeed in disposing of the million bales of its loan stock staple by September as it has set out to do. The smoothness with which its operations have been carried on since the policy was announced reflects a strong demand from consumption sources which suggests that continued improvement in general business may finally help the Government out of its cotton stock difficulties. This, however, presupposes that no other enterprises like the cotton loan program will be undertaken.

DOMINION SHIPPING

The Canada Shipping Act will be proclaimed August 1. It is a consolidation of the Dominion's navigation laws enacted some time ago, enforcement of which has been postponed to permit the important adjustment it entails. Among other things it will eliminate United States carriers from grain traffic formerly routed from the upper lake region to Buffalo and there reshipped to St. Lawrence ports. The United States might object to this were it not that its own navigation laws are even more restrictive to international cooperation.

MOTOR DEALERS

Apparently transportation comes next to food in the list of expenditures of the American people. The National Automobile Dealers' Association re-

ports that the volume of business done by its members last year was a trifle under five billion dollars, which would give the business the second rank it claims. Business done by the motor car dealers this year is expected to be around 10 per cent above that of a year ago.

Farm Land Sales

At the current rate of movement, sales of farm lands by the Federal land banks this year will run about 100 per cent over those of last year. This prospect is said to reflect activity in farm lands generally, especially in the southern and northwestern states. Increased activity and improving prices are taking more institutions than the land banks out of a slough of despond.

Surplus Power

In the course of the next six or eight weeks nearly 5,000 farmers and residents of small towns in Tennessee and northeastern Mississippi will receive surplus power from Wilson dam, half of them being farmers who have never before been served with electric power from any source. The new service involves the organization of half a dozen cooperative power associations under the provisions of the new Rural Electrification Act, which is thus finally coming into effective operation.

Money To Lend

A New York savings bank announces that it has $40,000,000 which it can lend on real property and still remain within the 70 per cent limit prescribed by law. This bank's position is typical of many. With all the talk of the need of providing more money for home building and home owning there is a lack of good risks in many parts of the country which indicates that any dearth of activity in this line has less to do with money lending than with a lack of initiative on the part of possible borrowers.

PICTURES

FUTURE OF TRANSPORTATION

Predicting wider control of all forms of transportation, Joseph B. Eastman, as Coordinator of Transportation and a member of the I.C.C., said also that he looked forward to greater electrification, wider use of Diesel engines and lightweight equipment. Above, a recent picture of the I.C.C.

Mortgage Banking

A poll of the Mortgage Bankers' Association indicates that mortgage banking will continue to improve during 1936 and into 1937, according to present trends. Business is reported best in the Far West, poorest in the extreme eastern states and showing steady improvement in the middle states.

Farm Equipment

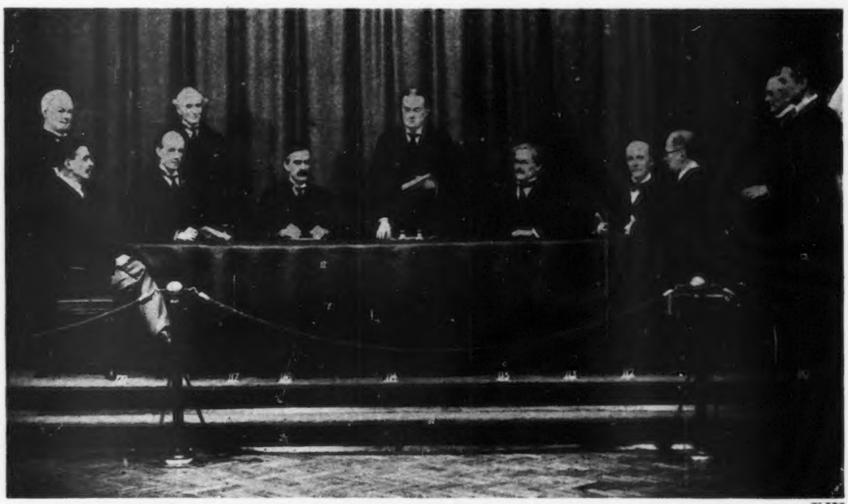
The Farm Equipment Institute of Chicago predicts that sales of farm equipment this year will aggregate $375,000,000 as compared with $300,000,000 last year and an accepted normal of $413,000,000 as indicated by the 1928–1930 record.

Second Quarter Results

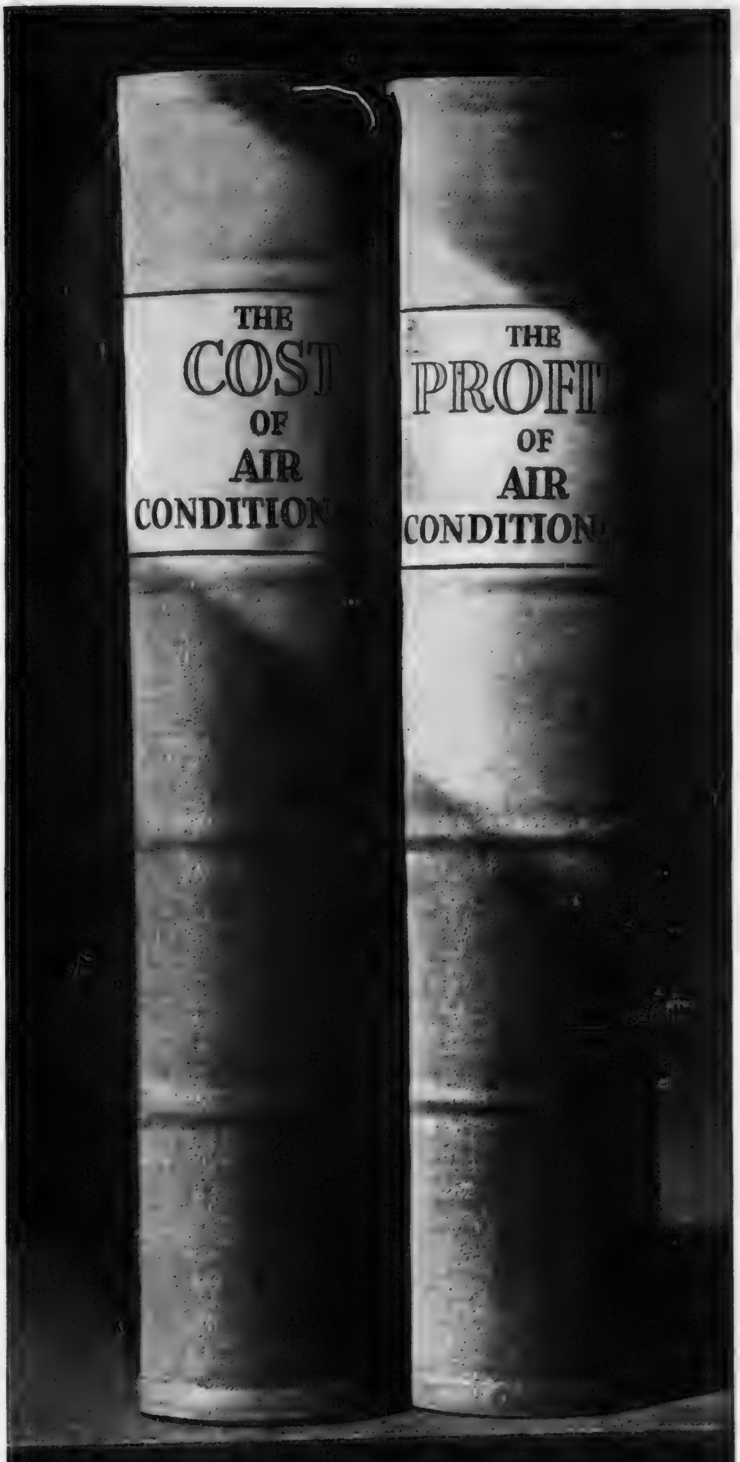
Second quarter earnings are expected to be good in most leading industries, including particularly steel, automobile, railway equipment, farm equipment and transportation concerns, as well as mail order houses and the consumption goods trade generally. Sensational returns on investments are no longer expected or even hoped for, but there is abundant reason to anticipate a better all around earning record in which an increasing proportion of the heavy goods industries will participate.

LONDON

A waxwork model of the present but already historic British cabinet. Since these figures were set up in London, Sir Samuel Hoare has reentered the group as First Lord of the Admiralty and J. J. Thomas (seated at right end of table) has resigned. Neville Chamberlain, Chancellor of the Exchequer (seated at Mr. Baldwin's right in the picture), recently made a proposal for regional agreements among nations for the purpose of localizing danger spots. He spoke of the impossible burden placed on the League during the Ethiopian war, and soon after his speech the British Government abandoned sanctions against Italy



GLOBE



Kelvinator Surveys
Cover Both Angles
on Air Conditioning

The popular tendency to "go modern" has given a big impetus to air conditioning. Inspired by the experience of theaters, restaurants and department stores in building patronage with air conditioning, many business men in other lines are looking to this new development as the savior of their trade. And, too often, cost is the only factor which determines whether a system is installed.

Kelvinator, interested in the sound development of the industry, frowns on such short-sighted approaches to the question of air conditioning. Any business man contemplating an installation, is asked to consider its profit-value for his particular establishment, as well as the cost, before he invests.

To aid him in this consideration, Kelvinator has developed a survey plan which forecasts the increased patronage, the extra volume of business, and the savings that can reasonably be expected where air conditioning is installed. The report is factual, based on actual experience records from similar establishments that have been air conditioned in the past.

This service is freely available, without charge or obligation, through any Kelvinator Air Conditioning dealer. Bankers tell us that it presents information which is just as important as cost figures when a depositor or client seeks counsel on air conditioning.

And equally important is the pledge of Kelvinator representatives to recommend no installation unless the facts show that it will pay worthwhile dividends.

Kelvinator Corporation, manufacturers of air conditioning equipment for every commercial and domestic requirement. 14250 Plymouth Road, Detroit, Michigan.

Kelvinator

ACMA

AIR CONDITIONING FOR PROFIT

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

JULY 1936

Factors in Bond Market Behavior

By LIONEL D. EDIE

Edie-Davidson, Inc., New York

THAT the bond market is poised at a high altitude every one admits. How long will it stay there? This question is uppermost in every banker's mind, and no one is wise enough to look into the future with complete assurance that he knows the answer. But every one realizes that the factors governing the course of the bond market deserve the most careful study, and hopes that by such study he may be able to steer a wiser investment course through an exceedingly perplexing period in financial history.

In discussing the bond market at the present time, one should give first consideration to the so-called "money rate bonds". These include high grade corporate bonds, high grade tax-exempt municipals, and obligations of the Federal Government.

These various classes of high grade bonds have one characteristic in common, namely, they are highly sensitive to fluctuations in the interest rate. This common characteristic overshadows the moderate differences which prevail between corporates and governments, or between governments and municipals. Consequently, it is of primary importance at the outset to discuss the basic factors which influence all classes of money rate bonds.

In the present period of easy money, the leadership in trends is taken by governments. Such leadership did not prevail during the period of easy money which existed in 1900 and during the years immediately following because, at that time, there was a relatively small outstanding volume of Government bonds. At that time the leadership in money rate issues was mainly taken by high grade railroad bonds. Under present conditions the outstanding volume of Government obligations is extraordinarily large and, as a result, the net yield on Governments furnishes the cue for all other markets in high grade obligations.

There are endless varieties of factors influencing the bond market and it would be futile to attempt to include all of them in this analysis. It is necessary to single out certain factors which seem to be of the greatest importance. The major factors to be considered here may be classified under

PAST PERFORMANCE OF YIELDS ON FEDERAL BONDS, 1885–1935

1885

Depression, December 1884–June 1886. Stock Market declines 1881–1885. Wheat crop smallest since 1881, coupled with low level of prices. Farm demand for easy money stimulated. Free coinage bill has close call, April 1886. Gold found in Transvaal.

1886

Period of moderate recovery, 1886–1889. Iron consumption doubles; prices rise; huge expansion of railroads. Heavy immigration. Surplus problem met by Treasury purchases of Government bonds between 1886–1890. Best business year since 1880.

1887

Great western population movement. Beginning of political agitation against "trusts".

1888

Wheat at $2. Campaign issue fought on reduction of surplus. Harrison is elected.

1889

Failure of Argentine wheat crop, basis of prosperity.

1890

Year of prosperity. Interest bearing debt reduced by purchases to $725,000,000. Sherman Silver Act, July. McKinley tariff, July. Panic and revolution in Argentina. Baring Bros. failure, London, November. Republicans lose heavily.

1891

Minor crisis early in year. Poor crops at low prices. Gold withdrawals (January–June) $70,000,000, a high record. Legal tender reserve falls below lawful minimum. Failure of Russian and French crops, combined with largest American crop in history, turns the tide.

1892

Year of contrasts. $50,000,000 gold, recovered in 1891, lost early in 1892. For first time banks turn to Treasury for gold to make export shipments. Silver threat increases. Cleveland gets majority of 379,000. Populists, on anti-gold platform, carry four states.

1893

Failure of P. & R. R. R., February. Collapse of National Cordage. Failure of Erie R. R., July. 160 banks fail. Gold at premium of 4 per cent. Cleveland calls special session to repeal Silver Act, August–October.

1894

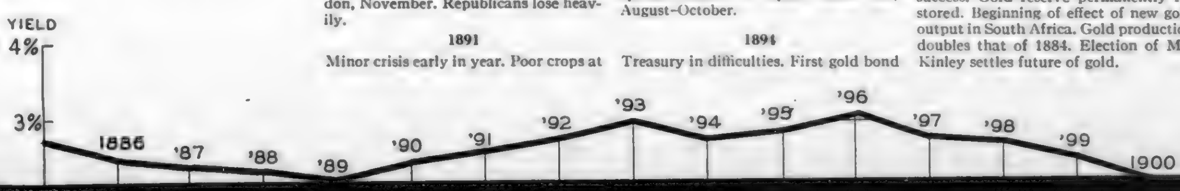
Treasury in difficulties. First gold bond offering failure, February. Transportation prostrate; agriculture has poor year; Coxey's army marches on capitol. Wilson tariff passes. Income tax invalidated. Treasury legal tender reserve falls to $41,000,000.

1895

Partial recovery. Morgan-Belmont Syndicate a success; legal reserves above minimum. Some recovery led by rails. Buying of "Americans" revived abroad. London begins to speculate in "Kaffirs". Syndicate loses gold control; reserves fall back to $63,000,000. Venezuela episode; further gold losses.

1896

Renewed depression. Treasury sells $100,000,000 in 4's; January loan is big success. Gold reserve permanently restored. Beginning of effect of new gold output in South Africa. Gold production doubles that of 1884. Election of McKinley settles future of gold.



the headings of: (a) money market factors, (b) demand factors and (c) international factors.

Primary attention should be given to the money market factors, and under this subject the matter of most immediate concern is excess reserves. The peak of excess reserves was reached about eight months ago when the figure stood at approximately $3,100,000,000. The banking world viewed this figure with grave alarm because of the fear that an immense superstructure of inflationary bank credit might be erected on that reserve base. Consequently, certain leaders of banking thought started a campaign to cut down the excess reserves by raising member bank reserve ratios. The Federal Reserve Board carefully studied the problem but postponed definite action. In the meantime, the Reserve authorities accomplished at least a temporary reduction of the excess by a technical bookkeeping process whereby Treasury cash and deposits with Federal Reserve banks were substantially increased.

This measure was partially neutralized by the resumption of gold imports on a large scale and, if such imports were to continue for an extended period of time, it would be practically impossible for the Federal Reserve to prevent them from having the effect of raising excess reserves to a new peak.

Considerable uncertainty prevails as to what the Federal Reserve will ultimately do. The power to raise member bank reserve ratios is a very important tool of a managed currency, and the use of that tool not only sets a precedent but also raises questions in the financial world as to the possibility that it will be used again and again. This possibility naturally introduces elements of uncertainty at a time when the financial world needs assurances of monetary stability. If excess reserves should take another sharp run upward, and if there should be evidences of a speculative expansion of credit based on such reserves, it is strongly probable that the Federal Reserve Board will take action. If these things do not happen, it is possible that the Board will prefer the policy of "wait and see". If the Board were to take action, the money market would expect to see rates tighten. How much they would tighten is problematical, but there is little doubt that the money market would anticipate developments on the side of firmer money rates. Consequently, there is a danger constantly overhanging the money market which is watched carefully from day to day for any signs indicating whether it is less likely, or more likely, to materialize.

The argument against its materializing is the theory that the Treasury needs extremely low money rates in order to carry out its financial requirements, and, therefore, that the Government cannot afford to run any chances of tightening money rates by raising member bank reserves. This argument has force, but it is not necessarily conclusive.

This theory introduces a second money market factor, namely, the Treasury's need for extremely cheap money. Not only is there a continuing large deficit to be financed, but, also, there is a very large amount of short term notes and bills which eventually should be funded into long term obligations. The lower the rate on such obligations, the less the cost of Federal Government financing. Many financial authorities have observed this fiscal pressure on the Treasury and have, therefore, come to the conclusion that the Federal Reserve, along with other Government agencies, will do everything possible to keep money rates extremely low. Such authorities point out that gradually the revenues raised to

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1897

Revival. Low water mark of commodity prices is touched in July. Aided by increases in world gold output, rise continues for next 23 years. Dingley Tariff, July 23, replaces Wilson Act with new high levels.

1898

Beginning of the American "invasion" of Europe as an exporter of manufactures. Exports of this kind double those of 1893. Foreign trade now across the billion dollar mark. Railroads emerging from receivership. Spanish War, April–August.

1899

$20,000,000 paid as indemnity for Philippines without strain. Boer War begins, October. Gold production is curtailed. Europe dumps securities on American market; Bank of England rate raised to 6 per cent in December, Reichsbank 7 per cent; call money here 186 per cent.

1900

McKinley is re-elected over Bryan. America becomes a lender to Europe for the first time; during Boer War, 1898–1902, loans over $350,000,000 to England and $30,000,000 to continent. Era of "combinations" at home in industry and rails, marked by over-issuance of securities, inflated prices.

1901

Formation of $1,000,000,000 steel trust. Harriman-Hill fight for the Northern Pacific; Northern Pacific "corner" and collapse of stock market.

1902–1903

"Rich Man's Panic". Reaction of collapse of stock market continues for two years; newly formed combines find going hard. Underwriting syndicates caught in drop; unload good securities to meet bank loans; stock market hit bottom in late 1902 and early 1903. "Steel" halts dividends as market value of stocks falls 60 per cent. U. S. Shipbuilding Company in receivership.

1904

Japanese-Russian War, February 1904 –August 1905. Northern Securities dissolution, March. Rise in land values begins in earnest, with farm lands in the lead. Roosevelt wins most sweeping victory in history.

1905

Americans over-subscribe $75,000,000 loan to Japan six times. Real estate speculation spreads to cities; New York City spends $230,000,000. Bank clearings rise 26 per cent above 1904. Hughes committee reveals insurance company abuses.

1906

Speculation rampant in Germany, Egypt, South America and Japan. New York bank position steadily weakens; requisitions made abroad. Hepburn Act passed, July. Union Pacific raises dividend to 10 per cent and speculation increases. Gold imported from England to bolster banks; Bank of England rate goes to 6 per cent.

1907

Landis fines Standard Oil $29,000,000, August. Collapse of markets of four continents. Begins with Egypt, engulfs Japan, Germany, Chile and U. S. Failure of Mercantile National of New York, October 16; Knickerbocker Trust, October 22. Panic hits stock exchange, October 24.

1908

Collapse and depression. Mopping up of wreckage of 1907. Business failures up 55 per cent over year before. Emergence of "sunshine" movement and "Prosperity League". Steel business cut in half. Taft elected over Bryan, but by a plurality only half as great as Roosevelt's in 1904.

1909

Recovery is short-lived. American investment market so demoralized that railroads and even cities are forced to borrow abroad. Payne-Aldrich Tariff fails to stimulate trade; politically unpopular. Secondary reaction sets in; year's net loss of gold is $88,700,000.

1910

Stocks, bonds, commodities fall. Political effects of poor business seen in replacement of Republican Congress majority with Democratic.

1911

Harvests a partial failure, drought cuts wheat to smallest total since 1904. Standard Oil dissolution ordered by Supreme Court under Anti-Trust Act involves $100,000,000. "Rule of reason" laid down by Chief Justice White.

1912

Indications of reviving trade. Record American harvests; big increase in exports of raw materials and manufactures. Iron production at 95 per cent capacity. Balkan War breaks out in October. European money markets tighten. Foreigners sell investments here. Woodrow Wilson elected President.

1913

French Government bonds fall to lowest since 1890; British consols lowest in history. Bank of England's rate goes to 5 per cent, highest since panic of 1907. Gold flow is reversed from this country as Europeans begin pre-war hoarding. Federal Reserve Bill becomes law, December 23. First Federal Income Tax becomes law; normal tax 1 per cent, surtaxes 1 to 6 per cent.

1914

War year begins with falling money rates. Bank of England discount rate 3 per cent. German war ultimatum, July 31. London Exchange closes. New York Exchange closes one day later. Trade dull, hopes low, as European market is closed. Cotton-grain markets are prostrate. Steel at 30 per cent. Sterling goes to $7. Merchants' paper goes to 8 per cent. Clearinghouse certificates again used. Aldrich-Vreeland currency issued. British break German blockade. Buying orders released. Panic subsides. Sterling back to parity. Stock exchange opens for restricted trading. Bond market in November, stocks in December.

1915

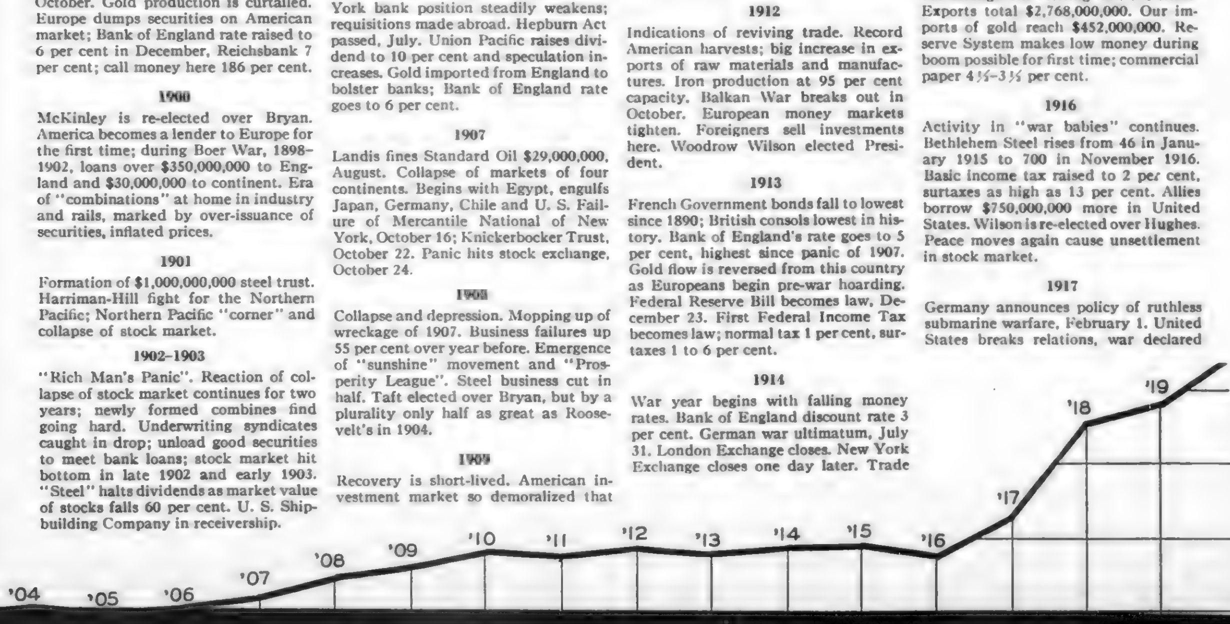
Wheat hits $1.67. Exports mount. Stock exchange opens April 1 for unrestricted trading. Breaks in May on news of sinking of Lusitania. Boom in war securities. Swift decline in sterling reaches $4.50 in September. Loan to Allies of $500,000,000 strengthens sterling and the franc. Exports total $2,768,000,000. Our imports of gold reach $452,000,000. Reserve System makes low money during boom possible for first time; commercial paper 4½–3½ per cent.

1916

Activity in "war babies" continues. Bethlehem Steel rises from 46 in January 1915 to 700 in November 1916. Basic income tax raised to 2 per cent, surtaxes as high as 13 per cent. Allies borrow $750,000,000 more in United States. Wilson is re-elected over Hughes. Peace moves again cause unsettlement in stock market.

1917

Germany announces policy of ruthless submarine warfare, February 1. United States breaks relations, war declared



provide funds for the Social Security Act will create huge buying power for Government obligations and will tend perpetually to give these obligations a scarcity value.

It is proper to question this argument on the ground that however much the Government may desire to maintain cheap money, it may not have the power to do so if normal demand for credit and capital ever returns. Artificial control of the money rate is merely another form of price fixing. Fundamentally, it does not differ from Government attempts to fix the price of cotton or wheat, and the general verdict of economic authority has been that such attempts at price fixing are always futile in the long run. There is no reason to believe that attempts to fix the price of money will eventually be any more successful than attempts to fix the price of commodities.

Nevertheless, the timing of a major challenge to the Government's control of the money market defies any exact calculation. There are no clear-cut signs of an immediate, impending challenge of that kind.

There is always a possibility that Government policy in this respect will be changed by a subsequent Administration. Political opponents of the New Deal have severely criticized the monetary policy of the present Administration, and they stand committed to important changes of policy if they come into power. The matter is mentioned here merely for the sake of not omitting an important consideration and is not to be construed in any sense whatever as an opinion on the probable outcome of the November elections. Even if there were to be a change in Administration, no certainty exists that it would favor tighter money once it was in power. It would inherit the problem of funding the short term debt, and it would face the necessity of accomplishing that financing as cheaply as possible. Consequently, what might happen under a change of Administration is wholly conjectural but it is a consideration which has to be kept in mind in an election year.

In addition to excess reserves and Government control, there is a third money market factor, namely, the spread between yields on short and long term maturities. The New York Federal Reserve Bank publishes monthly the average yields on Treasury obligations not due or callable within five years, and a comparable figure on obligations maturing between one and five years. At the beginning of 1934 the spread between short and long yields was approximately 0.5 per cent. During the succeeding two years the great desire for liquidity on the part of the banks led to an extremely heavy demand for short term maturities, with the result that by the middle of 1935 the spread between short and long yields had widened to 1.9 per cent. During more recent months, there has been a trend the other way, with the result that the spread at the end of May was only 1.63 per cent. Thus, during the past year the gap has narrowed by more than one-quarter of a point. The narrowing of the gap has mainly been due to a further decline in yields on long terms, but it is not to be overlooked that it was partly due to a tightening of rates on short terms. At the end of May 1936 the average short term yield was 0.69 per cent, whereas a year earlier it had been 0.58 per cent.

From another standpoint, yields on these respective classes of maturities afford a significant comparison. The entire Government market enjoyed a surge upward in the first half of 1936. This advance (CONTINUED ON PAGE 55)

April 2. United States offers first war loan in May, obtaining $3,035,000,000; second $4,617,000,000. War revenue act fixes basic income tax at 4 per cent, surtax ranging to 50 per cent, excess profits tax 15 to 60 per cent. Sterling pegged by U. S. Treasury gold novement away from us. Gold restriction imposed by Congress in September. United States technically "off gold" from then until June 9, 1919.

1918

Third war loan, in May, brings in $4,-158,000,000; fourth, October, $6,992,-000,000. Income tax raised, September, to 12 per cent normal, surtaxes up to 65 per cent, excess profits 35 to 70 per cent. War financed 32 per cent by taxes, 68 per cent by loans. Germany appeals for peace, October 6; Armistice, November 11.

1919

Pegging of sterling abandoned; dollar depreciation in neutral nations ended. Victory Loan, April, brings in $5,250,-000,000; total of five loans is $21,326,-777,000. First half of year marked by depression; turn came with renewal of export trade; speculation in commodities; rapidly rising prices and living cost. Cotton hits 48 cents, wages 100 per cent above pre-war levels. Rediscounts up in 10 months by $1,500,000,000. Rediscount rate raised ¼ of 1 per cent to 4¾ per cent.

1920

Deflation, 1920–1922. Rise in bank rate breaks stock market, but does not halt speculation in commodities. Two fresh advances made, January 22 to 6 per cent, May 29, 7 per cent. Stock prices renew advance. Collapse of Japan's speculative craze reported in April. New York department store slashes prices by 20 per cent. Tight money and deflation. Treasury forced to pay 5½ per cent for 6 months loan in May, 6 per cent by December. Liberty 4¼s hit 82. Government credit on a 5 per cent basis. Wheat prices, "peg" removed, fall from $3.13 in July to $1 in November, 1921. Harding elected.

1921

Commodity deflation; wool from 66 to 40 cents, rubber 39 to 19, coffee 17½ to 6½, sugar 21 to 8. Position of exporting firms critical during these months. Hit by "wave of cancellations", farmers in bankruptcy. Steel output off from 42 million tons a year ago to 19 millions. Failures double number in 1920.

1922

In four-year period after 1920, gold imports exceeded exports by $1,458,000,-000, raising our total holdings to $4,547, 000,000, against $1,887,000,000 when war broke out. Laid foundation for enormous inflation of 1924–1929. Evidence of recovery seen in rise of iron production, clearings and other indices. Reserve Bank rediscount rate now down to 4 per cent.

1923

European War debt settlements are arranged, beginning with England in June. Foreign loans used to balance annual export surpluses. Such loans rise from $417,000,000 in 1923 to $909,000,000 in 1924.

1924

Cotton yield large, and Europe a heavy buyer. Shortage of wheat helps. Export marked in same period. Export surplus rises in 1924 from $375,000,000 to over $1,000,000,000. Reserve rediscount rate at 3 per cent, lowest in history.

1925

Renewal of stock market boom on heavy scale.

1926

Period of heavy stock speculation and rising brokers' loans, 1926–1929. Bond market strong and flotations large, 1926–1927. Trade active. New York Reserve bank lowers, then raises rate, sells governments. Gold imports. Franc crisis.

1927

Business slackens, failures up. Mississippi Valley floods. Reserve banks cut rates, buy governments. Heavy gold exports.

1928

Reserve System battles speculation, money firms up, bonds weaken, 1928–1929. Trade rise resumed, stock trading activity expands. Federal Reserve raises rates, tightens money. Gold inflow begins. Hoover elected.

1929

Reserve Board warns on speculation, February. 20 per cent call money, March. Record business. New York Reserve Bank rate up 5 to 6 per cent, August. Stocks collapse, October. Reserve reverses policy.

1930

Business into deep depression, security prices drop, unemployment up, bank failures rise, currency hoarded, banks liquidate securities, 1930–1932. Smoot-Hawley Tariff Bill passed, June. Reserve banks cut rates, buy governments.

1931

Hoover proposes 1-year war debt stay. Austria, Hungary, Germany off gold. England leaves gold standard, September. Gold exports begin. National Credit Corporation formed, October.

1932

R.F.C. formed, January. Reserve banks buy governments. Gold loss heavy to June. Bond pool formed, June. Trade, securities hit depression low, July. Roosevelt elected, November.

1933

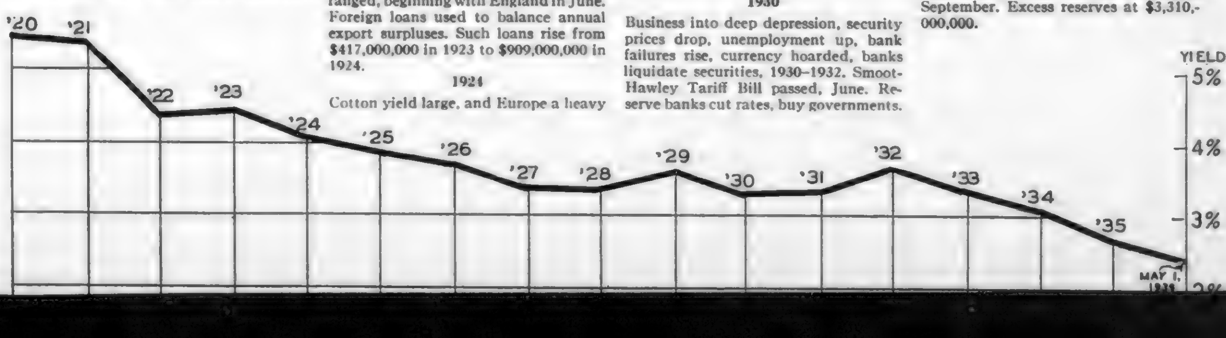
Business on zig-zag recovery, dollar devaluation, heavy Government spending, money rates low, bank reserves rise. New Deal legislation, 1933–1935. Michigan bank holiday, February. Nationwide holiday, March. Roosevelt inaugurated. Gold embargo, April. Reserve banks resume government buying. Securities Act passed, May. Inflation fear stimulates prices.

1934

Dollar revalued, all gold to Treasury, January. Treasury refundings begin, April. Gold imports large. Securities Exchange Act passed, May. Severe drought. Silver nationalized, August.

1935

Gold clause repudiation upheld, February. Security prices begin long rise, March. N.I.R.A. invalidated. Gold imports large. Treasury, corporate refundings heavy. Italy invades Ethiopia, September. Excess reserves at $3,310,-000,000.



A Bank Director's Album

TO become director of one of the larger banks in a major city is possible only for men of impressive financial standing. But, for other banks throughout this country, each one vitally important to its locality, the opportunity spreads out to more men. Often they are chosen because they stand out, primarily, for other things than mere wealth. In this manner thousands of us have served on bank boards as a part of our public service to the community.

Ordinarily, upon his election, a man bristles with pride. His wife and business associates broadcast the news. Well he may rejoice, too, for the distinction is very real in any city, even though shortly will come disillusion as some event brings home his responsibilities as a real burden—sometimes a heavy one. All the time of his service, however, beyond what he may contribute to the bank's welfare, his is a rare opportunity to learn numberless incidental things which, with profit if he be wise, he can translate into his own business.

Chief of all the gains is the broadened viewpoint of business. The non-banker director gradually gets an education in finance such as his own industry would never give. He learns the undercurrents of business in his community as a whole. Often his friends, with more or less envy, label this as "inside information", which of course it is. But it is also more. It is deeper than mere gossip about business affairs, because it brings to a focus at one spot all the trends of all the businesses of the city. These, at the bank, must then be weighed and acted upon as a part of nationwide conditions, not as idle chattering over politics but as either "yes" or "no" of action with large sums at stake.

All this, however, I shall pass over. It is a common experience. We shall look at some of the ideas which a bank director may glean from his worry and his work and carry back to his own business.

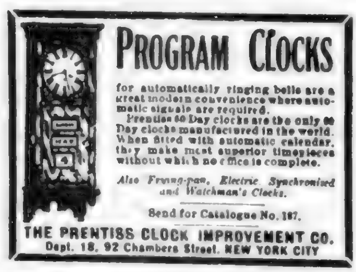
Personally the benefits to me were not confined to meetings of the board and its committee. Even greater was the indirect profit from the privilege of looking behind the tellers' windows and of asking questions about the internal routine of the bank. From this intimate contact with another trade I learned much, very much indeed.

Oldest of these recollections is that I learned the high value of bookkeeping machinery. The banks were the most progressive concerns in our community, always trying to do the old work in a better way. Yet it was with a feeling akin to fear that, in 1902 or 1903, I signed an order for our first figuring machine—an odd looking lot of keys on a black box that groaned like a grandfather's clock almost run down. And, six months or so later, $375 for the coal company's first listing machine was a greater event—so important that our directors were consulted and I remember the price to this day.

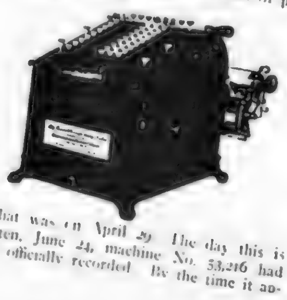
Although our company at that time was probably billing $100,000 of coal a month, all invoices were pen written. To type one was unknown, because the duplicating invoice either was not invented or had not reached us. All our records had been of hand operation. So, measured by the mechanical and photographic bookkeeping of today, those early ventures of ours would be horribly crude. But 35 years ago the introduction of mechanical equipment in our offices quickly and entirely changed all our controls over the business.

As I was then privileged to see behind the windows of the bank it first

"The banks," says Mr. Haring, "were the most progressive concerns in our community, always trying to do the old work in a better way. . . . The more closely a business is managed through good accountancy, the better it fits the demand of today—a profitable lesson, that, to learn from being a bank director." On these two pages appear advertisements for equipment taken from American and British banking magazines of the early 1900's, the period of which Mr. Haring writes



to help him extract the maximum of profit from his business



That was on April 29. The day this is written, June 24, machine No. 53,216 had been officially recorded. By the time it ap-

By H. A. HARING

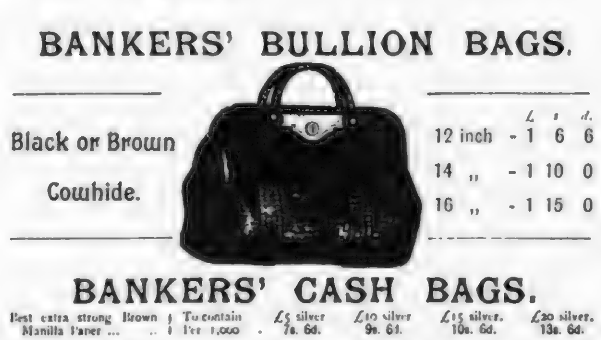
dawned on me that speed in completing the record is essential to knowing how a business stands. The bank had a "balance" every evening before the clerks could go home. We in coal mining were always one week, and sometimes as much as three, behind our actual working condition. As I remember those days a conference with the head bookkeeper was a regular occurrence in our efforts to estimate on the basis of his vague analysis of unposted accounts, particularly current payroll (85 to 90 per cent of total costs in coal mining). The new machines altered this. Our records were quickly brought up to a standard of 48 hours behind the work, which was scattered far in the hills.

In coal mining we faced the ever-present danger of payroll holdup. Our company, for example, operated from seven to 12 mines, each situated in an outlying spot somewhere in the hills. Not one of them was nearer than four miles to a bank and one of them was 22 miles. Payday, by contract with the miners' union, fell on the 10th and 25th of each month; pay-off was stipulated to be at the "mine mouth" in "money with nothing larger than a $20 bill", it being specifically forbidden us to tender any form of bank check or paper. The risk was great. The technique of protection, today as common as ABC to all employers, was in those days largely unknown.

From our banks we got help, especially from many talks with bank examiners and inspectors who bore to us suggestions from distant places. Due to the helpful suggestions of one examiner, who afterwards became president of a great surety company, we evolved self-protection based on common sense and the then-unknown ideas of varying the procedure. He helped us set up an unbroken series of what he called "watch towers" along the route to each mine. These were storekeepers and householders (largely the families of our own miners) who on paydays kept a lookout for unusual passers-by between certain hours and then, much like the passing reports of a train dispatcher's office, telephoned our office the passing of specified vehicles. The women loved it! Much of the reporting was, each payday, dummy data, because we tried to prevent anyone learning the real route for the day even by tapping our informants. Our only holdup in some 30 years, with from 14 to 24 pay trips a month, was disastrous to the gang. They stopped a dummy paymaster and within three hours all four men were in jail. The cost to us was about $100 a year per mine to the sheriff for extra protection and holding men in readiness twice a month for a few hours; plus a few telephone bills; and, each Thanksgiving, one turkey per "watch tower". Our reduced insurance premium more than equalled the total cost.

Possibly, in all honesty, I ought to add that we also invested quite a good deal of brain matter. It became a game, compared with which a detective story was poor amusement. About the year 1916, however, this problem became more simple, because the surety companies and certain protective concerns came into the field with more adequate plans. But the earlier measures grew out of directorship in a small-town bank barely above the one-man size.

Another bank president—the only



BROWN BROS.

"As I remember those days a conference with the head bookkeeper was a regular occurrence in our efforts to estimate on the basis of his vague analysis of unposted accounts, particularly current payroll (85 to 90 per cent of total costs in coal mining). The new machines altered this. Our records were quickly brought up to a standard of 48 hours behind the work, which was scattered far in the hills." Except for the quaint dictating machine at the left, little mechanical equipment appears in this picture of an office in the early 1900's

one now living of those under whom I held directorship—was cold-blooded in his belief that "safe management recognizes a loss and charges it off". Sometimes he would scandalize his board by thundering this rule at us when we hesitated to vote the charge-off. His determined policy, explained to me in many a personal chat, made a deep impression—this, remember, even before the Panic of 1907. Carried home, and altered to suit coal mining, this principle proved most valuable to follow. For, with us as with most concerns selling goods, a more easy-going rule had prevailed. A customer whose account was lagging would be baited into a payment on account by shipping him another carload, or ten carloads, of coal, with the result that his net balance unpaid went continually up. Profit on the "baiting" shipments could never offset the cumulative loss of a mounting debt. Yet we did it.

That banker dinned into me the thought: "You're in business to make money; if not, you're a fool; and when you see a loss, face it." Occasionally, after we took the right-about, a loss would be retrieved by later recoveries. But, for all that, the effect on us was good, and nothing but good. Our sales department would object, much as the bank directors did in their meeting. Salesmen would beg for leniency to a customer, with all the usual reasoning. Undoubtedly, too, we passed up a considerable tonnage that we might have sold and collected for. As it was, when the dark days came to coal mining, such as 1905 or 1914 or 1921–22 with widespread bankruptcy to the industry, our company rode easily through the stress.

Rubbing minds with a good banker is a revelation to the inner workings of their world.

The banker's desk is clear of litter. He knows nothing of the sweaty, begrimed foremen who sit down with a coal mine operator to talk over the day's problems. The banker, to all appearances, meets only gentlemen, or, at least, men in their gentlemanly frame of mind. It was a long time before I caught the thought of their "tools" of employment. Finally it came to me, clear as crystal. To a banker, figures are a "tool". Whether it is a column to be footed, a set of ratios to be analyzed, a lot of percentages to be compared or a plain profit-and-loss statement, a sheet of figures is to him what a pipe threader is to a steam fitter.

To such a man sentiment and emotion, when measured against cold figures, make a weak showing. They are expressed in an alien tongue. The borrower who tries to beg off, on any basis other than figures, defeats his own cause; but, armed with a sheet or two of significant figures, he is sure of a hearing at least. Repeatedly have I known a case where the identical conditions of a business, presented on the one basis, did not appeal to the banker but, where restated in the shape of his familiar "tool", he could not resist the temptation to analyze. He merely can not evaluate any proposal not expressed in figures.

A theoretical matter? Not at all.

Thirty or 40 years ago all business, coal mining as much as any other, was too little conscious of accountancy. Those concerns which, through contact with good bankers, first introduced bookkeeping machines and evolved statistical control of their operations stepped to a position of leadership a whole generation ahead of their times. Some of them learned how to make of figures a business tool. Just as a banker's job is not one of wild imagination but one of cold facts, so the profit-making business must use figures as a symbol of facts, relentlessly expressed.

We may grant that in the earlier history of our country we needed railroad building with imagination—most of which went bankrupt—and manufacturing with a long vision into the future. Even under those conditions our safest banking held to the matter-of-fact idea. Its measuring stick was the known values of arithmetic. In our own day all business accepts the change of conditions. The more closely a business is managed through good accountancy, the better it fits the demand of today—a profitable lesson, that, to learn from being a bank director.

New Instruments of Credit Policy

By W. RANDOLPH BURGESS

RECENT legislation has placed in the hands of the Federal Reserve System two new and powerful weapons for influencing credit conditions, and it has strengthened some of the older weapons. Including these newer powers, six instruments of credit policy may be listed: discount rate, open market operations, direct dealing with member banks, publicity, changing member bank reserve requirements, adjusting margin requirements on security loans.

TRADITIONAL INSTRUMENTS

THE first two of these are the traditional methods of credit control used by banks of issue the world over for many years, though indeed open market operations have become recently a more conscious instrument than in earlier days. The general timing and use of these two forms of control during the post-war history of the Federal Reserve System is shown in diagram I in relation to the country's economic life. The heavy fluctuating line shows the changes in industrial activity in the United States. The shaded areas indicate the times when the System undertook open market operations or raised or lowered its discount rate. The diagram shows that purchases of securities and discount rate reductions have been made in times of business depression, and that sales of securities and discount rate increases have taken place at times of business prosperity. Thus Federal Reserve policy has been a compensating influence directed towards greater business stability. This diagram of course shows only a part of the whole economic picture, but in general, and with some few exceptions, the movement of industrial activity is a good index of prosperity or depression for the country as a whole. The diagram shows in general the relation of Federal Reserve policy to the country's economic life.

The results of policy were of course far from perfect. Economists may well debate for many years the extent of responsibility of the Reserve System for the overexpansion in 1928 and 1929, and the great succeeding depression. Was an easy money policy of earlier years partly responsible? Was restrictive action in 1928 and 1929 too late and too mild? Was the reversal of policy in 1930–1932 premature, or perhaps not vigorous enough? Or indeed were the forces at work, generated by the war and its consequences, too great to be checked by any bank of issue? Whatever the answers history may give to these questions, it does seem clear that the influence of the Reserve System during this whole period was exerted vigorously and persistently in the right direction—towards stability.

NEWER INSTRUMENTS

LEAVING these two traditional instruments of policy about which so much has already been said by many competent scholars, we may well examine the other less well recognized and newer instruments.

Discount rate and open market operations are impersonal and general, but the adjustment of credit to trade is in practice personal and individual. The volume of bank loans is decided when bankers and business men sit down together and agree on a line of credit. In somewhat the same way the amount of Federal Reserve credit in use is determined when the member banks come to the Reserve banks for funds. It is, therefore, natural that many people familiar with the bank and customer relationship should think of the direct contact of Reserve banks and member banks as offering the best opportunity to control the total amount of Federal Reserve credit. Experience has shown, however, that this apparently simple and direct means of credit control, known at times as "direct action", has not in fact proved very effective. The gist of the matter is that the Reserve Bank officials would find it in practice almost impossible to ration credit between member banks. By the nature of the case the relationship of Reserve bank and member bank is quite differ-

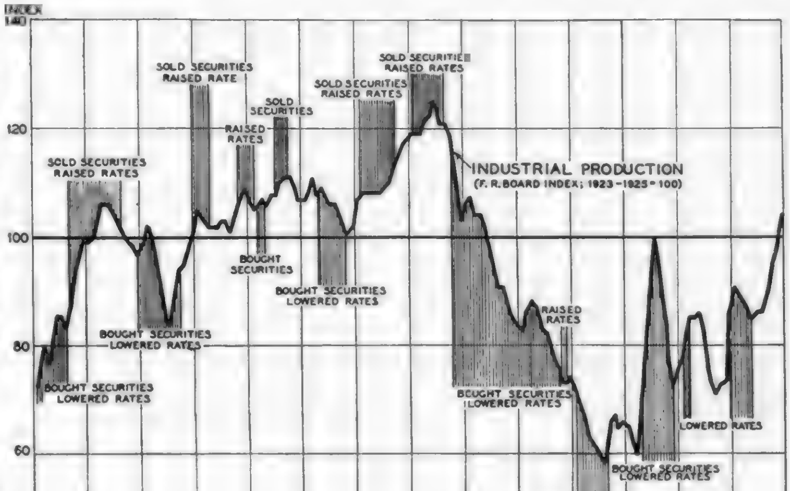


DIAGRAM I—Timing of purchases and sales of Government securities and discount rate changes as compared with changes in the volume of industrial production

ent from, and more impersonal than, the relation between the commercial bank and its customer.

Borrowing is, with certain limitations, a right of the member bank, and most borrowing goes forward in course without involving any special question of policy. It is the duty of a Reserve Bank to see that the paper offered it conforms to the technical provisions of law with respect to eligibility, and to see that it is good, that it will be paid at maturity. The further responsibilities of the Reserve banks were implied in the phrase of the original Reserve Act which instructed the board of directors of each reserve bank to "extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

The more recent legislation adds a further objective to lending policy: "the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture"; and loans may be refused any bank which is making undue use of bank credit "for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions." (Sec. 4, par. 8, as amended by Banking Act of 1933.)

These provisions make clearer the responsibility and power of the Reserve banks for dealing with that limited number of members which are clearly abusing the borrowing privilege by using Federal Reserve credit for too long periods or in too large amounts or are obviously expanding credit for speculative purposes too freely. The correction of these cases of abuse is an influence of some importance in maintaining a sound credit situation; but it is easy to overemphasize this importance. "Direct action" is a method adapted to dealing with a few banks obviously borrowing too freely. To attempt to apply it more generally would involve endless controversy as to what constitutes "undue use of bank credit", and would place the Reserve banks in a position of assuming responsibility for the management of member banks.

While the limitations which have been noted stand in the way of effective control of the volume of credit through the power to grant or deny loans, the Reserve banks may at times exercise an important influence on the general credit situation through the informal suggestions which they may make to bankers. The Reserve banks, as impartial, non-profit organizations, in some sense instrumentalities of the Government, occupy in each district a position of some authority, and their suggestions to bankers are treated with considerable respect, somewhat as are the views of the banks of issue in other countries. The informal influence which they exercise in this way may at times prove more important than their formal action under the law. It is an influence to be exercised with the utmost discretion and would vanish with excessive use.

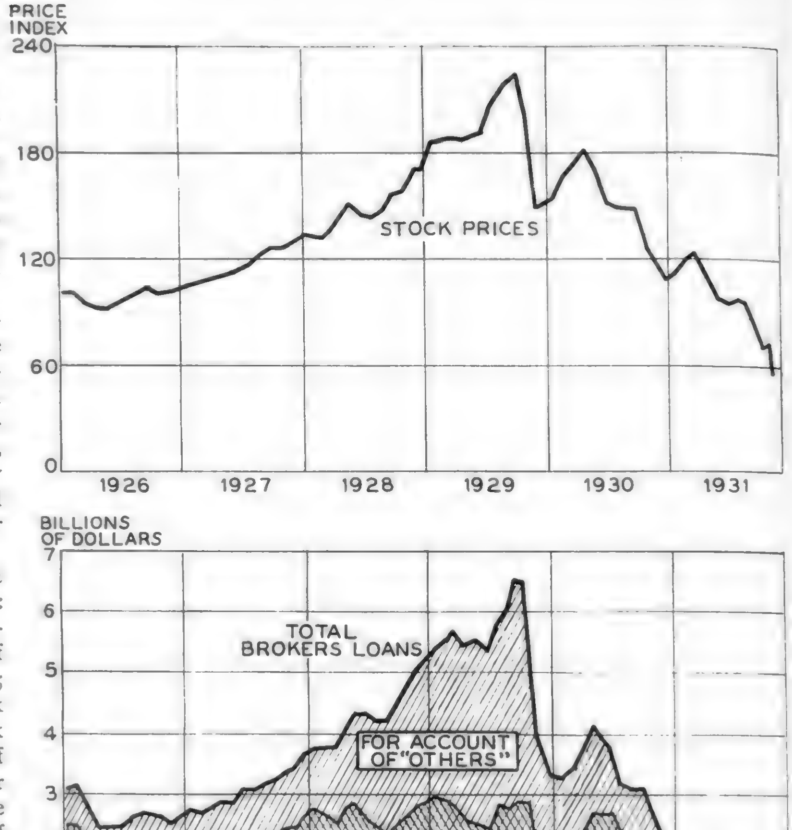


DIAGRAM II—Increases in security prices in the boom years of 1928 and 1929 were supported very largely by loans to brokers for account of "others"—corporations and individuals

PUBLICITY

AT times the views of the officials of the Federal Reserve System with respect to financial conditions have been made public through the official publications of the System or through other forms of public statement. These statements have sometimes constituted an instrument of policy fully as effective as specific action which might be taken. The statement issued by the Reserve Board in February 1929, warning against the excessive use of credit for security speculation, was an example of this sort. Here again the effectiveness of the instrument has depended upon the rarity of its use. No body of men is wise enough to rule the complicated financial affairs of this country through oracular pronouncements. Ordinarily the most effective way for a bank of issue to make known its views is by its action through discount rates, open market operations, etc. This is partly

because it is much easier for any group of responsible men to agree upon what to do, than to agree upon a statement of why they did it; so that the action taken by public or semi-public bodies is at times wiser than the avowed reasons for the action.

The Banking Act of 1935 adds a new feature to Federal Reserve publicity, for it requires the Board of Governors of the Reserve System to publish in their annual report the principal policy decisions made by the Board and the Federal Open Market Committee, the votes on those decisions, and the reasons. Since the publication of reasons will ordinarily take place some time after the event, this provision of law is likely to prove more potent in its effect on those who make the decisions and have to justify them in this manner than as a direct influence on the credit situation.

But aside from policy statements the Reserve System has also exerted an influence through its publication of a wide range of information, not only concerning the Federal Reserve System itself but credit and business conditions. The weekly published statement of the condition of the Federal Reserve System is one of the most complete and revealing statements published by any bank of issue in the world, and in addition the Board of Governors publishes in weekly form a report of the condition of member banks in principal cities, and reports of the volume of bank transactions in principal centers throughout the United States. Daily reports of gold exports and imports at New York and daily foreign exchange rates at New York are released by the New York Reserve Bank. The Board of Governors publishes a monthly bulletin containing a comprehensive review of credit and business conditions and each of the 12 Federal Reserve banks publishes a brief monthly review of conditions in its own district. Copies of these publications are available not only to the member banks, but to the general public as well, and have wide circulation. The availability of this information may well prove in the long run as important a factor making for financial stability as discount or open market policy.

RESERVE REQUIREMENTS

WHEN the so-called "inflation amendment" to the Agricultural Relief Act was passed in May 1933, providing for revaluing the dollar, printing greenbacks, or expanding Federal Reserve purchases of Government securities, Congress appended to this bill a clause creating a new method of control over some of the possible consequences of the inflationary provisions of the bill. The method of control was to change the amount of reserves which member banks were required by law to carry in Federal Reserve banks. The inflation provisions of the bill if put into effect would increase member bank reserves by many billions of dollars. In fact the devaluation of the dollar has had that result. By increases in reserve requirements some of these additional reserves could be absorbed when necessary and thus prevented from forming a basis for expansion of bank credit.

This article, like those by Dr. Burgess in May and June BANKING, will appear later as chapters in a book which the author will publish this Summer

The section of the bill conferring these powers was in the form of an amendment to the Federal Reserve Act and read as follows:

"Notwithstanding the foregoing provisions of this section, the Federal Reserve Board, upon the affirmative vote of not less than five of its members and with the approval of the President, may declare that an emergency exists by reason of credit expansion, and may by regulation during such emergency increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits."

As further consideration was given to the terms of this bill after its passage, certain defects became obvious. Before action could be taken the President would have to declare that an emergency existed by reason of credit expansion. The barn door could thus be locked only after the horse was stolen. Action to be effective should be taken before credit expansion had created an emergency. Moreover, any President would hesitate about declaring that an emergency existed. There would be no faster way to create an emergency.

In the light of these difficulties the Banking Act of 1935 included a revision of the power to alter reserves, as follows:

"Notwithstanding the other provisions of this section the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount."

Thus the power to alter reserves was placed in the Board of Governors of the Reserve System without action by the President, and preventive rather than curative action was contemplated. The amount of increase was limited to 100 per cent, to relieve possible apprehension of too severe action which might be a deterrent to the use of then existing excess reserves. The character of increases was also more closely prescribed.

(CONTINUED ON PAGE 74)

DISTRIBUTION OF CREDIT-INFLUENCING POWERS OF THE FEDERAL RESERVE SYSTEM

Powers	*Determined by*
Discount rates	Reserve Banks and Board of Governors
Open market operations	Federal Open Market Committee
Direct dealing with individual banks	Federal Reserve Banks, with some checks by the Board of Governors
Publicity	Board of Governors and Reserve Banks
Changing member bank reserve requirements	Board of Governors
Adjusting margin requirements on security loans	Board of Governors

The Gold Standard Meanwhile

By NORMAN CRUMP

Financial Editor, *The Economist*, London

IN England there is only one central bank and a limited number of commercial banks. The bulk of the banking business of the country is in the hands of eight large joint-stock branch banking systems, namely the "Big Five" and the three chief Lancashire banks. No bank in England is bound by law to keep a minimum cash reserve, yet all banks aim at keeping their ratio of cash to deposits at approximately 10 per cent. Even during the last few years of cheap and plentiful credit, they have never risen appreciably above that ratio. The problem of excess bank reserves is unknown.

In the United States there are 12 Reserve banks and 15,000 commercial banks, of which over 6,000 are members of the Reserve System. There is relatively little branch banking, and most of the banking business of the country is conducted by separate independent units. Legal reserve requirements are laid down for all banks, but in consequence of the recent regime of cheap and plentiful credit the total cash reserves of the member banks alone are nearly double their legal minimum. The problem of excess member bank reserves, with its potentialities for inflation, has for two years been one of the major banking problems of the country.

I have set out this broad contrast between British and American banking conditions, because my object is to trace the differences in the two countries which have led to so wide a divergence. To some extent it may be due to differences in banking organization. In England, the existence of a few big branch banking systems permits of greater centralization of control and a closer and more accurate mobilization of both cash and earning assets. For example, all securities are bought, all call and short loans are made, and today most bills are discounted solely at head office; and for the Big Five, at least, head office is in London within a stone's throw of the Bank of England, the one central bank of the country. Diffusion exists only in the case of deposits, advances and cash. Deposits are kept under close control by means of frequent returns from the banks to head office, while each important branch notifies its head office each day of any actual or impending big withdrawal of funds which may affect the bank's total supply of cash. Advances are granted by branches, but in most cases are subject to the supervision and authorization of head office, which has regard to both the size and character of each application for a loan and to the total volume of all advances outstanding at any moment. Cash consists partly of the bank's balance at the Bank of England and partly of the coin and notes held in the till of each branch, supplemented by local currency reserves situated at strategic points throughout the country. The net result is that there is a very closely established control over all the assets and liabilities of a big British joint-stock bank, and one advantage of this is that it is possible to work on a very close margin and avoid any wastage or redundancy of cash.

For this reason alone, I should expect that the total amount of surplus cash held by the few integrated British banks would normally be smaller than the total excess reserves of the thousands of independent American banks.

Obviously this is only the beginning of my explanation. The main contrast today arises almost entirely from other causes. To prove this it is only necessary to trace how bank cash has been created in England and the United States, with reference particularly to the past few years.

In a country possessing either a single central bank, like the Bank of England, or a chain of allied central banks, like the 12 Federal Reserve banks, the reserve balances held by the commercial banks at the central bank can originate in only one of two ways—the gold holdings of the central bank, or its holdings of earning assets, such as bills, securities and loans. In actual practice, it is possible in both countries today to consider only the central banks' holdings of gold and government securities, for other assets are small and constant enough to be neglected.

The main offset which reduces the size of commercial bank balances at the central bank is the central bank's note circulation. Miscellaneous deposits at the central bank are again usually small enough to be neglected.

Broadly speaking, the commercial banks' balances at the central bank equal the central bank's gold plus government securities less its note circulation. The error inherent in this equation is both small and reasonably constant, and when we are considering *changes* in commercial bank cash, it can usually be neglected.

Let us now examine the position of both the Bank of England and the Federal Reserve banks at the end of 1932 and the end of 1935, as shown by the table at the bottom of this page. It was

	Bank of England			Federal Reserve Banks		
	end '32	end '35	change	end '32	end '35	change
	£ millions			*$ millions*		
Gold	120	200	+80	3,151	7,553	+4,402
Government Securities	369	339	−30	1,855	2,431	+ 576
Total	489	539	+50	5,006	9,984	+4,978
less Note Circulation	371	424	+53	2,738	3,709	+ 971
Actual Total	118	115	− 3	2,268	5,275	+4,007
Bankers' balances at the central bank	102	72	−30	2,509	5,587	+4,078

PUNCH

"The Old Lady of Threadneedle Street", personification of the Bank of England, as characterized by *Punch*

during those three years that the problem of American member bank excess reserves developed. In England, I have combined the returns of the Issue and Banking Departments of the Bank of England. In the United States, I have counted as gold the gold certificates now held by the Reserve banks. There is no practical difference between gold itself and certificates which both stand for gold and can be used and regarded as gold.

There is some discrepancy in the British figures, due mainly to a reduction in miscellaneous assets of the Bank of England during the years under review, but it is not large enough to affect the main argument. In the United States the correspondence between member bank balances and the net total derived from the other three items is surprisingly close.

The main lesson of the table is that the American accounts are of an order of magnitude totally different from that of the British accounts. Whether we take £1 as equal to just over $3 (as in December 1932) or to just under $5 (as in December 1935), the various assets and liabilities of the Bank of England, cited above, are of the order of only *hundreds* of millions of dollars. Those of the Federal Reserve banks are measured in *thousands* of millions. If, during those three years, the Bank of England had had a net gold influx of £800,000,000, instead of only £80,000,000, and if it had had to take up over £100,000,000 of Government securities, instead of being able to reduce its holdings by £30,000,000, then I am not going to say that we might not have had a British problem of excess bank cash.

During those three years the British monetary and banking system has moved in low gear, while the American system has been geared up about ten times as high. It is always easier to apply delicate control to an automobile in low gear, and both the engine and the transmission are much more flexible.

This table brings to light the main origin of the contrast. The next step is to see how it has come about. Contrary to a general impression, prevalent in Great Britain if not in the United States, the main cause of the inflation of member bank reserves (or cash, for the two terms are interchangeable) is not the Reserve System's acquisition of "governments", but its acquisition of gold. Thus it is best to begin by seeing how the British and American monetary systems absorb and digest their new gold.

The fundamental difference between the British and American monetary regimes today is that the United States is on the gold standard, while Great Britain is not. Instead we have evolved in Great Britain a new kind of monetary technique, in which, it is true, gold movements play a very important part, but which equally leaves the Bank of England entirely free to decide how much gold it will buy or sell. When we went off the gold standard in 1931, the effective legislation laid down that the Bank of England was no longer bound to sell gold bars at its statutory selling price of 77s. 10½d. per standard ounce (equal to about 85s. per ounce fine). It was still bound—and is so bound to this day—to buy gold at its statutory buying price of 77s. 9d. per standard ounce (equal to about 84s. 11d. per ounce fine); but as 84s. 11d. at $4.95 to the pound equals only $21, and as the American buying price for gold is $35, no one today troubles the Bank of England to buy gold at its statutory price. The importance of this is that the Bank of England is left an entirely free agent to acquire as much or as little gold as it likes.

On the other hand, experience has shown that the British authorities have to deal heavily in gold if they desire to keep the exchanges stable, and for this purpose the instrument of the Exchange Equalization Account has been gradually developed. Similarly there is in the United States the Stabilization Fund, established out of the proceeds of the revaluation of the dollar in early 1934. The exact operations of both the British and American funds are very properly kept secret, but sufficient information has emerged to show that there are fundamental points of difference between them. I propose to explain these in some detail, for in conjunction with the present-day freedom of the Bank of England they largely help to explain the absence of excess bank cash in England and its presence in the United States.

The main points of difference are as follows:

(1) The British Exchange Equalization Account was established and is maintained out of the proceeds of short term government borrowing, either directly or indirectly, from the joint-stock banks. Every time the Account buys, say, £100,000 of gold, an extra £100,000 of three months' Treasury bills is issued in order to finance the purchase. The bulk of these bills is either taken up by the banks direct or taken up by bill brokers who promptly borrow from the banks, using the bills as collateral.

The American Stabilization Fund was established out of the proceeds of the revaluation of the dollar. The gold initially held by it was not offset by further Government borrowing from the member banks.

(2) The British Exchange Equalization Account is not bound to buy any gold offered to it. It is an entirely free agent and always takes the initiative. We have already seen that the Bank of England is also a free agent. In practice the Bank buys only just enough gold to

PHOTOS BY FAIRCHILD AERIAL SURVEYS

ENVIRONMENT

Left, the U. S. Treasury in Washington (at the center on left margin); right, the Bank of England (occupying upper left half of picture), in the heart of London's financial district. In these two buildings centers the control of the American and British exchange stabilization funds

maintain an adequate cover against the recent natural expansion in the note circulation. Gold cannot be thrust upon the Bank in such a way as to create redundant bank credit. If gold is imported into England, neither the Bank nor the Exchange Account can be forced to buy it.

Gold imported into the United States by arbitrageurs, bankers and others automatically finds its way into the monetary system of the country in such a way as to end up as gold certificates held by the Reserve banks, offset by an equivalent increase in the balance held at the Reserve bank by the member bank which either imported the gold itself or acted as the banker of the importer. The Reserve System is not a free agent, and cannot decide on its own initiative how much or how little new gold it will absorb. While the Stabilization Fund has no doubt followed the example of the British Exchange Account in acquiring gold in Paris in order to support the franc, any gold imported into the United States finds its way into the Reserve System.

(3) Great Britain has never formally devalued the pound sterling in terms of gold, nor created any sudden discontinuity which inevitably caused a big influx of gold. The Bank of England's gold stocks have never been written up in proportion to the devaluation of the pound, and the Bank's old and new gold alike is still valued at about 85s. per ounce fine. Any loss on the purchase of new gold at the current market price of about 140s., and its immediate writing-down to 85s. per ounce, is by law made good by the Exchange Account.

The United States devalued the dollar early in 1934 to a gold content corresponding to a parity of about Frs. 15.08 to the dollar. At that time the quoted exchange was about Frs. 16.30. A discontinuity was thus created, and while it was being rectified through a depreciation of the dollar to the new parity, about $500,000,000 of gold flowed into the United States, mainly from France and the other gold bloc countries.

(4) We can now establish the real and consequential difference between British and American banking. It is as follows:

When an influx of funds into England from abroad is so great as to occasion an addition to Great Britain's monetary gold stocks, the gold is taken up by the Exchange Account, and fresh Treasury bills are issued against it. If these foreign funds directly or indirectly end up as new deposits at the joint-stock banks, then the offset to these new deposits is an increase in the joint-stock banks' holdings of Treasury bills and loans against them. Their cash is unchanged and so their ratio of cash to deposits is reduced.

When an influx of funds into the United States from abroad occasions an importation of gold, this gold passes into the Reserve System. If these foreign funds end up as new deposits at the member banks, then the offset to these new deposits is an increase in member bank cash. Thus the member banks' ratio of cash to deposits is increased, and they begin to acquire excess cash.

Granted the entire freedom of the Bank of England to act on its own initiative, this problem of expanding bank cash and bank credit by just enough and no more was comparatively simple. The table suggests that no expansion in bank cash was necessary, and when allowance is made for the liquidation of frozen bank loans through the progress of the trade revival, this was true up to a point. Yet if average figures for the whole of 1932 and 1935 are compared, there has been some expansion in the joint-stock bank cash, deposits and earning assets. The expansion in cash, which determines the other two, has been entirely under the control of the authorities, thanks to the freedom of the Bank of England to regulate its own purchases of both gold and securities. Hence there has been no creation of surplus bank cash, and the most that has happened is that the joint-stock banks today hold an abnormally large quantity of "governments" in proportion to their deposits. This is a cheap price to pay for the advantages of conversion.

Still, whatever the other problems arising out of British and American Government finance, I feel that they play a minor part in the creation of the American excess reserves. The real cause is the difference in the handling of British and American new gold acquisitions, combined with the fact that the American acquisitions of the metal are much the larger.

Better Bank Insurance

By JAMES E. BAUM

Deputy Manager, American Bankers Association; Secretary, Insurance Committee

Insurance Protection

Loss prevention is fundamental to sound banking, but adequate insurance protection is an essential safeguard against risks which sometimes materialize despite the exercise of diligent care and precaution. Enlightened self-interest and a higher quality of insurance protection can be gained by a thorough digest of this informative article.

UNDER Article VII of the by-laws of the American Bankers Association, the Insurance Committee is charged with the duty of advancing "the interests of the members in their relations with insurance companies, including the procuring of reasonable premium rates, the adoption and use of proper forms of fidelity bonds, burglary policies and other insurance contracts. . . ." Through the years, the Committee's progress in fulfilling this responsibility is evidenced by the increasingly broader contracts made available to banking, as reflected in the Association's successive copyrighted forms of fidelity schedule bond and burglary and robbery policy, and also in revisions of the bankers blanket bonds as approved by the Committee. These copyrighted forms are drawn primarily with a view to the interests of assured banks.

The Association's first copyrighted fidelity schedule bond was adopted as early as 1899 and a copyrighted burglary and robbery policy in 1911. Periodically thereafter, the Insurance Committee arranged for improvements in the coverages afforded under these and other standard forms of bank insurance contracts. The Committee's activities during the current year, however, have been marked with exceptional progress in the development of better bank insurance.

A revision of the Association's fidelity schedule bond, copyright 1913, was agreed upon and a new bond bearing our 1936 copyright adopted on April 24. The issuance of this new fidelity bond and improved loss experience brought a reduction of approximately 20 per cent in premium rates. Unlike the 1913 form, the new bond specifies a period of 24 months after termination of insurance for the discovery of losses contemplated by the bond. The insuring clause is broadened to provide indemnity for "*any* loss or losses sustained by" the assured bank without restricting coverage to money or other personal property. It also covers "loss of money and other personal property in the Employer's custody or possession *whether or not the Employer is liable for such money or other personal property*", whereas the 1913 form covers only "*pecuniary* loss . . . of money or other personal property (including that for which the Employer is *responsible*)."

The recovery clause has been revised so that the expenses incurred in effecting a recovery, plus loss payments, are defrayed by the underwriter up to the amount of insurance carried. Additions or increases in the amount of insurance are made effective on the *date specified* in the bank's notice rather than some later date when the bank *receives* the underwriter's written acceptance of such notice. To preserve continuity of protection which is broken when changing contracts, the new bond contains a superseded suretyship clause. Additional changes for clarification are given effect in the new form and are detailed in the Insurance Committee's report to the Association's Executive Council on April 28.

COVERAGE EXTENDED

ASSISTED by representatives of four New York City banks, on June 12 the Insurance Committee concluded negotiations with the Surety Association of America for the purpose of extending the coverage and clarifying the conditions provided in Bankers Blanket Bond, Standard Form No. 8-Revised, the broadest form of bankers blanket contract issued by the domestic companies. These negotiations resulted in the adoption on June 12, of a new No. 8-Revised Bond containing many improvements, the most important of which are:

1. The opening clause of the bond which stipulates when losses must be sustained and discovered is amended to state clearly that the insured bank is allowed "12 months after the termination or *cancelation* of this bond *as an entirety* as provided in the *first paragraph of Section 11* or by *mutual agreement*" to discover losses sustained while the bond is in force. Coupled with revisions made in Section 11, the first paragraph of which provides for different means of termination or cancelation of the bond in its entirety, this amendment to the first clause removes ambiguity from the old form as to the time allowed for discovery of losses perpetrated by a defaulting employee. While admitting the old bond allowed 12 months after its termination as an entirety for the insured bank to discover losses caused by an employee who merely resigned without the discovery of a default on his part, the old bond has been interpreted in some quarters to mean that the insured bank has only 12 months after learning of any default caused by any employee, to discover other losses caused by the same employee. Under the new form the 12 months' limitation upon the discovery of losses does not begin until the bond is terminated or cancelled *as an entirety*. This applies to losses sustained through any insured hazard while the bond is in force, whether or not the loss was caused by an employee as to whom the bond had been terminated because of the discovery of another dishonest act committed by him.

2. Amending the forgery Clause (D) to cover losses through cashing or paying forged or altered sight or matured drafts *drawn against or payable at or through named banks or clearinghouses*. Under the old bond, only drafts *drawn against banks* are covered. The new form also insures against loss through transferring or paying any funds or establishing any credit on the faith of forged or altered *written instructions or advices* from any customer or from any banking institution, excluding telegra-

(CONTINUED ON PAGE 66)

Keeping in Step with the

WHEN a bank buys a bond it is extending credit, and, therefore, its bond credit files should contain all the essential information that is expected of the note credit files. This means that all the factual and market data regarding every issue in its portfolio should be readily accessible to the bank's management. While it is true that the services of outside investment counsel may frequently prove of real assistance in the practical operation of a bond portfolio, nevertheless the final responsibility for the safety of the investments rests with the board of directors and officers of the bank. When losses occur the bank may blame such outside services, but the public blames the bank. Moreover, because the bank, not the outside services, has to stand the losses, bank officials cannot afford to rely blindly upon such services.

Neither can reliance be placed upon ratings alone. The mere fact that all the various rating bureaus use different factors to arrive at their ratings is in itself proof that such ratings are only one indication, and not the sole criterion, of a bond's fitness for a bank's portfolio.

THE ESSENTIAL DATA

FACTUAL data and statistical information required from any kind of credits are merely for the purpose of finding out the value of the pledged asset and the ability of the borrower to repay. This information is uncovered somewhat differently in the various classes of bonds. Outlined below is the information on municipals, railroads, public utilities and industrials which a bank should have in its own bond credit files.

The term "municipals" as used herein means the obligations of states and any of their political subdivisions—counties, cities, school districts, etc. In considering the data that should be available on a municipal bond issue it must be borne in mind that, contrary to general belief, municipal bonds are only rarely a mortgage on either the taxable property or the municipally owned property of the community. Except for a few isolated instances and in five of the New England states, municipal bonds are secured by tax income only and not by property. They are, therefore, primarily debentures. The data that should be at hand is, in general, that which indicates present and future ability to pay from the standpoint of available income.

Primarily, of course, the present and future ability to pay is dependent upon the present condition and future prospects of the economic life of the community in question. Location, population growth, character of industries or principal earning activities all form the basis for judgment on this point. The assessed valuation of property for taxation is a necessary figure as a rough basis for the ability to pay but is rarely conclusive because of the wide variation in the ratio of assessed to true value.

A factor of prime importance is the operating condition of the municipality. If it is borrowing money on bonds or notes to pay operating expenses and debt service or is not receiving enough cash income from operating revenue to pay its operating expenses and debt service, it is sooner or later going to get into financial difficulties even if its debt burden is low. Data covering this point is, therefore, important. It should include the data for an operating balance sheet, tax collections and receipts from other sources of income.

Although a municipality may be operating on a sound financial basis, its debt burden may be so heavy that it will have difficulty in meeting debt service charges now or in the future. It is therefore necessary to know the amount of the gross debt, the amount of such debt that is self-supporting (water debt, etc.), the amount and adequacy of sinking funds pledged for the payment of term bonds at maturity, and the municipality's share of the debt of overlapping subdivisions whose debt must be serviced by the same taxpayers. The ratio of the net debt (gross debt less self-supporting debt and sinking funds) to the assessed value and the net debt per capita will be found to be of value in deciding upon the size of the debt burden. A record of the total amount of the debt interest and maturities for at least five years in the future is of service in determining whether the maturities are well distributed or whether a forced refunding may be necessary.

A bank investing in the securities of its own community must realize that these securities must be paid, in general, by the persons or industries represented in its own note case.

During the recent period of financial stress, municipal bonds in many cases failed conspicuously as a secondary reserve, which emphasizes the necessity for having as complete data as possible upon the municipal holdings and to watch them as carefully as any other type of securities.

All the above information can be condensed on a small card, or on the bond ledger sheet itself. It would merely be necessary to have a line for each of the following: "present assessed value of real and other property", "basis of such assessments", "this debt", "total overlapping debt", "total debt per capita", "total tax rate", "tax collections and net debt trend for last three to five years", "operating surplus or deficit", "character of industries", "population for last two census periods", "sinking funds, amount and adequacy", "bank deposits, how collateralized".

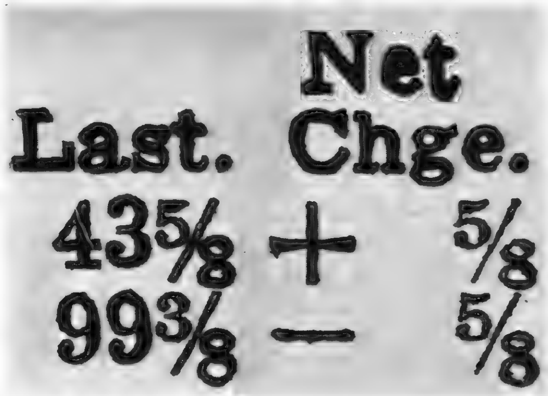
STATISTICS REQUIRED

THE statistical information required from the different classes of general market bonds varies somewhat, but the principle is the same in each case, namely, value of property mortgaged and ability to repay. Common to all, therefore, is the number of times the total fixed charges and interest on the particular issue have been earned annually over a four- or five-year period.

Railroad bonds require a number of statistical relations, in addition to conventionally reported gross and net income and their relation to fixed charges. A record of revenues, earnings and balance sheet items over a period of at least five years is also important in order to determine whether or not the road is keeping up with or bettering corresponding averages in the same district.

The relationship of maintenance charges to gross revenues is of prime importance in interpreting net operating income and earning ratios. In the past there has been much "juggling" of maintenance to keep earnings at as high

Bond Market



By E. S. WOOLLEY

a level as possible, resulting in a deferred capital liability.

Accrued taxes have been given less attention but are of equal importance. A number of roads have been maintaining their cash position in spite of operating deficits, by withholding tax payments. This is particularly true where, as in the case of certain roads operating in New Jersey, there has been some basis for protest against taxes.

In the case of industrials the figures for net sales, together with profit margins, are of primary importance as an indication of industrial trends and position of the concern within the industry. The fluctuating character of industrial earnings, however, places greatest emphasis on liquid capital strength. Balance sheet trends should therefore receive most careful consideration, with special attention to the effect of depletion and depreciation charges on the current position.

In utilities the necessary information includes: a summary of operating revenues and expenses over a four or five year period; the number of times total fixed charges and interest on the particular mortgage have been earned each year; the percentage of earnings remaining after interest; maintenance and depreciation to gross earnings; depreciation to depreciated fixed assets; debt per dollar of gross earnings; debt to depreciated fixed assets; and the ratio of depreciated fixed assets to gross earnings.

Many banks buy bonds on the assumption that they are a liquid asset and, as such, provide the secondary reserve so essential to the conduct of a safe and profitable bank. The true test of the liquidity of an asset is the ability to convert it into cash without having to sustain a loss.

Bonds in themselves are not a liquid asset, only a marketable asset. Commercial paper, bankers' acceptances or trade acceptances would meet the test of liquidity because they represent money advanced for the conduct of trade and will be converted into cash when the goods reach the ultimate consumer.

Bonds, on the other hand, fail to meet it because they are financing investments of a more or less permanent nature. They are in reality split mortgages on either real property or anticipated future income. In many cases the outstanding bonds are part of the capital structure of the issuing company, and the holder of a bond, therefore, becomes a pro-rata owner of the physical assets against which they are issued. This is true whether or not the bond is convertible into stock.

The only thing which enables bonds to meet the requirements of a bank's secondary reserve is the fact that the exchanges provide a market wherein they can be disposed of at some price, though that price may be but a fraction of the original cost of the bond to the bank.

MUNICIPALS, FOR EXAMPLE

IF it were not that these exchanges or principal market places provided marketability, bonds would be entirely useless for liquidity purposes. This fact, in general, was well emphasized by municipal bonds during the financial depression. In many cases no market could be found for such bonds because they had no central point of exchange. Because, then, bonds must be sold in order to be converted into cash, the marketability of each issue in a bank's portfolio becomes of prime importance.

An individual may buy a bond for a permanent investment. So long as the interest is being paid and the intrinsic value is back of the issue, he is content. A 10- or even 20-point drop in the market price need not disturb him. He is not forced to sell by outside pressure. Banks, on the other hand, are not buying for permanent investment but must ever have before them the fact that such funds may be required on a moment's notice. Pressure from owners of the funds may force a bank to sell regardless of the loss it sustains in doing so. Actually banks are operating on a margin which is the ratio of capital funds to deposits.

Therefore the ability to sell a bond at no less than its cost should be among the first considerations of a bank in the purchase of such securities. Bonds do not fluctuate in price of their own accord. Those fluctuations but reflect the demands of buyers or sellers. If a bond declines, it means that the sellers are predominating. If it is rising, the situation is reversed, and the buyers are predominating. Such fluctuations may not mean that the intrinsic value of the bond has changed one iota. Again they may be very significant.

Bankers with depositors' money invested in bonds must be in a position to know the reasons for the fluctuations and be guided accordingly. This cannot be done by buying bonds and putting them in the bank's vaults and forgetting them. Each bond in the portfolio requires constant watching, with marketability trends ever in mind. These trends can be successfully watched only when the bank has in its possession all essential information on each issue in its portfolio, both factually and marketwise. Furthermore, this information should be readily and continuously accessible. If it is necessary to be always digging information out, the work not only becomes more or less arduous, but requires a considerable portion of the executives' time.

When all is said and done, bonds are a credit and therefore should be handled in the same way that any other credit is handled. This means complete credit information in the bank's own files.

SOVFOTO

SAVING

A cooperative farm woman at Savings Bank No. 1525 in Moscow

Russian

THE most important economic development in the Union of Soviet Socialist Republics in recent years, in the opinion of many students, has been the aggregation of the 25,000,000 individual farmsteads, which formerly made up the agricultural area of the Union, into some 250,000 collective farms, called *kolkhozy*, of varying sizes and devoted to raising various crops or livestock. These farms now include about 90 per cent of the cultivated area in the U.S.S.R., and probably that proportion of the peasant population; the small number of individual farmers now left, penalized in taxation and harried as "class enemies", may be expected soon to cease their resistance and join with the rest.

The history of collectivization in the Soviet Union is too long and involved to narrate. Suffice it to say that, after the adoption of the first Five Year Plan of economic development and the upturn in industry that followed as the result of huge investments of capital and importation of foreign-made machines and engineers, it was discovered by the government that the peasants, neglected in the distribution of budget appropriations and deprived of the power to buy needed goods by the fact that there were no goods to buy, as well as by the very low prices paid by the government for farm produce, were refusing to plant, balking at joining the collectives, and generally protesting against the preference shown to their city brothers and cousins.

Repressive measures instituted by the government and army only made matters worse; a stalemate was reached, with the cities beginning to suffer a food shortage and the peasants resorting to armed resistance. This impasse was broken by the adoption of a new policy toward the peasants, a relaxation of the pressure on them, an increase in prices for produce and a reorganization of the collective farm system, with a view to attracting the peasants rather than compelling them to join. A number of measures were adopted which were intended to benefit the peasant surrendering his land, large stock, field machinery, etc., for collective use, while retaining his home and *dvor*, the plot around the house, small stock, tools, etc. The result of this change of front on the part of the government, and of two or three good harvests, has been an upswing in Soviet agriculture, an increase in planted area and crop yield, and an attitude of at least semi-enthusiastic acceptance by the peasants of the new order of things, which has upset so many venerated traditions and ancient customs.

Not the least important of these new measures favoring the peasants has been the increase of financial support to agriculture, by means of budget appropriations and direct loans and credits. The growth of the first has been rapid, from 279,200,000 paper rubles in 1927–28 (fiscal year) to 5,875,491,000 rubles for 1936, excluding appropriations for the state farms, large-scale enterprises run by the government with hired labor. There have also been long term loans, many of which were never collected; in December 1934 debts of 435,619,000 rubles owed by the collectives to the Agricultural Bank, and incurred prior to January 1, 1933, were canceled, and their notes returned to the farms issuing them.

It was not until two years ago, however, that bank credits became available to the collective farms on as good terms and in as considerable amounts as those extended for years to industry. The attention of the government was focussed on the credit needs of the peasant population by an investigation into the affairs of the Agricultural Bank, one of the huge government banks, described in BANKING of November 1934, which had failed to adjust itself to the new situation brought about by the change in state policy and the growth of the collective farms. The criticism of the bank's activities charged failure to maintain a "living bond" with the collectives, the assumption of a bureaucratic and mechanical attitude toward their clients, a willingness to approve building estimates and reports without inquiring into the fairness of cost figures used, and the great weakness, from a banking standpoint, of too great leniency in allowing overdue loan payments to be still further postponed.

The government has continually striven to persuade the collectives to bank their surplus funds, whether those brought in by the members when joining and held as "indivisible" thereafter, or those realized from sales of produce and from labor, and subject to later distribution to the members. It is from the first class of funds that the Agricultural Bank makes loans to the farms for permanent improvements, such as barns, community and club

Capitalism

SOVFOTO

SPENDING

An endless belt conveyor in a grocery store that offers delivery service

houses; they may be spent legally only for general benefits to the whole membership of the collective. The bank is held responsible for observance of the law by the farms, for reasonable construction and labor costs, and for constant supervision over the financial affairs of the collective. Its failure to watch developments carefully leads to excessive expenditures, incomplete building programs and waste of funds.

The government decree issued May 23, 1934, as a result of the investigation referred to, hits at all the weaknesses of the bank and calls for immediate reforms. Other official criticisms refer to the credits that the bank extends for production purposes, as well as those granted to the machine-tractor stations (special organizations which work for the collectives on a payment-in-kind basis), to foodstuffs-processing agencies, etc. These are all clients of the bank, which in 1934 had financial connections with 13,415 of these various agencies and 150,000 collective farms. Its credit operations jumped from 211,600,000 rubles in 1933, to 297,800,000 rubles in 1934, and over 514,500,000 rubles in 1935, in its accounts with the collectives alone. It may readily be understood that the slack banking practices complained of are certain, on this huge scale of operation, to produce serious defects and waste in the carefully planned financial work that is laid out for the bank by the government.

A new decree covering long term operations in 1936, recently published in Moscow (March 6, 1936), calls for 712,500,000 rubles of long term loans in 1936 to the collectives and their members, of which 639,000,000 rubles are for the farms themselves as units. In allotting the credits, the bank, from its intimate knowledge of the borrower, decides whether the money shall go for livestock raising, for improving land to give higher yields, or for the much-advertised government policy of providing every collective member with a cow of his own, or at least a heifer-calf to raise. From this same knowledge comes the power to vary the loans according to performance, in all cases judgment being based on whether the farm is sincerely endeavoring to follow the agricultural plan or soldiering in its efforts.

Besides helping the peasants directly, the bank may use its funds to create or build up village industries, such as brick and tile plants, flour mills, etc., which represent community assets.

At first small, but now growing to important proportions, the surplus or still undivided earnings of the collectives are meeting with increasing attention from the government and the State Bank, which has a monopoly of short term credit extension to industry and agriculture. It is estimated that in 1935 the income of the collective farms was 10,000,000,000 paper rubles, of which only 1,000,000,000 was deposited in banks, the rest being kept in desks and other home depositaries. The issue of short term credits in agriculture is limited to certain seasonal operations, such as the purchase of seed, fertilizer and feed, the growing of crops on contract, a custom very prevalent in the U.S.S.R., and other operations promising a quick turnover of the funds. The State Bank has hitherto been niggardly in granting these short credits, and has been taken to task by the Soviet press. The bank has been eager to welcome deposits from the collectives, but uses the money for loans to industry, which is always seeking larger bank credit. As clients, these collectives are valuable, but they must and will have service beyond the mere safeguarding of their funds. It is indicative of the government's new interest in the peasants that one of the highest Soviet officials devoted part of a recent speech to an arraignment of the bank's indifferent attitude toward these new depositors, and an urgent demand that the bank and its rural branches should change their tactics and try to help them, both with financial advice and loans.

The collective farms and their members, and the other economic agencies of the government already mentioned, are not the only possible and actual village clients of the State Bank. Another that has been important hitherto and is rapidly becoming more so, because of a change in Soviet retail sales organization, is the consumers' cooperative chain-store system. This chain, until recently, had its largest business and finest stores in the cities, where most of its turnover of 20,512,500,000 paper rubles (in 1934) originated. But the proportion of the total retail business allotted to these cooperatives, which are no longer cooperatives in anything but form and whose activities are completely controlled by the gov-

ernment, has been decreasing since the peak year of 1931, when they handled 69.9 per cent of the retail trade; in 1934 they were responsible for only 37.5 per cent, and in 1935 for even less.

Last year, for a number of reasons, the Soviet government decided to confine the retailing operations of these cooperatives to the villages and to make them responsible for supplying all the needs of the peasants for consumption goods. It is too early to be confident that the government, which controls the wholesale distribution of these goods, will not continue its custom of allocating the lion's share to its own chain-stores in the cities, leaving the peasants with plenty of money but nothing to spend it on. But in any case the cooperative chains have been strengthened and expanded; large (for the village) department stores have opened, making 9,000 of this type, called *selmagi*, and 5,000 new smaller stores, named *selpo*, have been added to the 125,000 shops already in existence. Storage and transport facilities are to be increased, and salaries of efficient store managers will be raised all along the line.

The financial support for this new organization and expansion is to come not only from the share capital of the cooperatives and their undivided profits, but also from a one-year loan from the State Bank of 30,000,000 paper rubles, primarily for the organization and equipment of the 5,000 new *selpo* shops. In addition, the bank is instructed to supply direct credit to any *selpo* having a retail turnover of 20,000 rubles a month or more, which operates without a loss. This limitation is imposed to enable the bank to force the inefficient and unprofitable stores either to mend their ways or be closed up.

BONDS TO BE RETIRED

AN interesting sidelight on the coordination of the various financial agencies of the government is the fact that as an additional fiscal aid to the cooperatives, the 125,000,000 rubles of 8 per cent state bonds purchased some years ago by the cooperatives, under compulsion, are to be retired by the Commissariat for Finance ahead of the due date, in order to supply the Centrosoyuz (Union of Consumers' Cooperatives) with much-needed funds to execute all of its new obligations.

It is obvious that in this expansion of its regular work the State Bank faces a difficult task, for it must follow the new policy of the government and favor the village, sometimes in specific respects noted in the decree establishing the new system of cooperative retailing, even though it has a simultaneous obligation to respond to the demands of the government chain-store system in the industrial cities. It is to be hoped that the financial and banking system is sufficiently flexible to carry all the burdens imposed on it. There will, of course, be no lack of money, for the State Bank issues the bank notes itself, and the Treasury manufactures the balance of the money now in use—treasury certificates and silver, copper, nickel and bronze coins. Add to this the fact that expansion of credit, under the Soviet system, is merely a matter of bookkeeping, and it is plain that the money needed can readily be furnished. Not so easily supplied, however, is the banking experience, the detailed clients' statements, the close contact between the bank and the customer, so necessary in the new situation and so difficult to attain when both bank and customer are attempting something new, on a large scale, and composed of many parts. And there is, of course, always the human element, the incalculable Russian peasant.

CUSTOMER RELATIONS

It is indicative of the government's new interest in the peasants that one of the highest Soviet officials devoted part of a recent speech to an arraignment of the State Bank's attitude toward these new depositors, and an urgent demand that the bank and its rural branches should change their tactics and try to help them, both with financial advice and loans. Below, a group of Soviet officials, with Joseph Stalin seated at the far right

SOVFOTO

Congress Goes Home

Washington, D. C.

PERHAPS it is illustrative of the times that the late Congress should have gone around in circles. Certainly it seems to have come out where it went in.

It was to have been a short session. The plan was to pass the annual appropriation bills, the soldiers' bonus bill—although this was not admitted at the time—to settle the manner and amount of unemployment relief, to clear up a few odds and ends, including possibly a housing bill, a ship subsidy measure of some sort, and so on, and then to go home. Enthusiasts talked of adjournment by the middle of March; others thought the middle of April might be possible; still others, the middle of May. But the middle of June found Congress still in a jam.

All that has been accomplished has been something less than that proposed. Opposition to the Administration's plans for relief faded out in the face of an overwhelming Administration majority in an election year. Passing the bonus, however, involved trouble, since it represented a new demand upon the Treasury which the Administration insisted must be covered. The invalidation of the A.A.A. by the Supreme Court led to further trouble, since it necessitated the revamping of the farm aid program and this involved not only new legislation but new taxes.

The real issue of the session was new taxes—in an election year. For once it seemed that the Senate would refuse to do the bidding of the executive authority. Yet it did. The Administration proposed to do away with straight taxes on the earnings of corporations and the capital stock and excess profits levies and get at big money through large stockholders in corporations, forcing the latter to distribute their earnings or suffer heavy tax penalties on a sliding scale up to 42 per cent. The House of Representatives agreed. The Senate proposed, instead, to increase the present straight taxes on corporate earnings and add 1 per cent to individual income surtaxes. The compromise was all embracing. It retained a normal tax on corporate earnings, of from 8 to 15 per cent. It retained the President's idea of taxing undistributed corporate earnings,

HARRIS & EWING

Speaker Bankhead says goodbye to members leaving for home and political fence-mending

but at the lower rate of from 7 to 27 per cent. The scheme is designed to raise an additional $785,000,000 in new income to cover the increased cost of the bonus and to provide funds for agricultural relief. It is estimated that $703,000,000 of the new taxes will be permanent.

Except in matters which affect them as all other business concerns, banks escaped legislative attention during the session. Bank regulation at present, and probably for some time to come, is administrative rather than legislative in its nature—the application and interpretation of the Banking Act of 1935, new Reserve Board regulations, new F.D.I.C. regulations, new Comptroller's regulations, new S.E.C. regulations and so on. It is just as well that banks have been allowed a breathing spell from the direct action of Congress. They are face to face with increasing difficulties growing out of the spending policy of the Government and mounting Government deficits, which affect them not only as taxpayers but also through their deposits, excess reserves, their investments and their means of securing adequate earnings.

The Government's expenditures are certainly on the upgrade. Aside from relief legislation and soldiers' bonus payments, preliminary figures indicate a rise of approximately $300,000,000 in next year's outlays above budget bureau estimates, and the latter allow for an increase of approximately $600,000,000 over the closing year's expenditures for new Government activities, such as social security in its various categories, railway retirement contributions, national defence and the like.

The amount appropriated for relief is $1,425,000,000, which is to be turned over to the President, who will turn it over to the W.P.A. under Harry Hopkins. Including allowances for the C.C.C., the P.W.A.—which, by the way, will continue to operate on a $300,000,000 revolving fund through the R.F.C.—the Army, the Navy, and other departments heretofore carried in the appropriations for relief but this year carried as regular appropriations, the total comparative sum for relief this year will be between $3,300,000,000 and $3,500,000,000 as compared with $3,210,060,123 last year up to June 15.

While legislation directly or indirectly connected with taxes and relief took up a large part of Congress' time and the public's interest, the full list of legislative enactments included several other important matters, such as the Soil Conservation and Domestic Allotment Act, Commodity Credit Act, Commodity Exchange Act, municipal bankruptcy legislation, Government Contracts Act, Unlisted Securities Trading Act, R.F.C. Tax Exemption Act and the Bonus Act. Of course there has been other legislation, some of it to correct previous legislative mistakes or avoid court decisions or both. By and large, the Seventy-fourth Congress performed its chief labors in its first session; and that was a plenty.

GEORGE E. ANDERSON

The Month

The Condition of BUSINESS

RECOVERY IGNORES POLITICS. Business activity continues to expand with little regard for the traditional uncertainties of an election year. This recovery, in short, seems to be assuming more and more the aspects of its many predecessors which were motivated by the restoration of confidence.

The quadrennial period of campaigning finds the country assured that defeatism has itself been defeated and determined that the fruits of this major victory shall be held. Reasons for the recovery may vary in accordance with political views—certainly the reasons will be carefully dissected during the next four months—but it would appear that fundamentally more important at this juncture is the fact of the recovery.

TAXES AND PAGEANTRY. June was predominantly a political month. Both major parties put on their national convention regalia and, with appropriate pageantry, presented platforms and candidates. Congress adjourned after passing a compromise tax bill, the effect of which on business is problematical. Through the Treasury, the national legislators discharged what they had regarded as the country's obligation to the World War veterans.

Amid the hubbub in Washington, Cleveland and Philadelphia business stuck quietly to its knitting. Several lines of activity recorded gains that were contra-seasonal; in others the diminution that usually signals the approach of Summer was less than normal. On the whole, it was a satisfactory month; the momentum previously acquired was sufficient to overcome any hesitancy which might otherwise have been manifest.

THRIFTY VETERANS. The immediate effects of the bonus payment were less spectacular than had been anticipated, for in many communities there was no great rush to cash the bonds. Perhaps it was unfair to expect that the beneficiaries of the Government's generosity would spend hurriedly or carelessly, but there had been a rather general feeling that little time would be lost in the conversion from checks to currency. No doubt a liberal proportion of the money will find its way into retail trade before the Summer is over; yet the first returns suggested either that many of the veterans wanted to hold their funds as a backlog, or that their immediate need was not urgent. Banks provided sound counsel for those who wavered: "If you have debts pay them. If you don't need the money keep the bonds. If you don't want the bonds use your money wisely."

STEEL PRICES AND PRODUCTION. The industrial situation has been dominated by the high rate of activity in the steel mills where output during June hovered around 70 per cent of capacity, or approximately the high point of the year. As was expected there has been a slight decrease in the demand from the automobile and farm implement factories, although this decline has been far less than normal and even in some of these lines—tractors, for example—demand has not weakened appreciably. Undoubtedly the sustained activity was due in part to the increase in steel prices for third quarter delivery, but advance buying against this rise was below expectations.

5,000,000 AUTOMOBILES. Demand for goods of the semi-permanent type also has been brisk and tends to increase. Automobile production slows up as the trade prepares for the new model season, yet a 5,000,000 unit year still seems probable. The possibility that both the steel and motor car industries have over-produced is obviously present and may have an effect on the Summer month schedules, perhaps with accompanying curtailments in related lines. However, purchasing power, created in large measure by the Government's program, should be maintained and any let-down in industrial activity may not run beyond seasonal limits. Many World War veterans want new cars, and it will be surprising if the automotive business does not get its share of the bonus bond proceeds.

FARM OUTLOOK GOOD. Crop prospects are excellent in many parts of the country. Drought has threatened to be a disturbing factor in the Northwest, but the price outlook, at this point, seems promising. There has been enough doubt about the position of cotton to lift prices appreciably in response to a strong demand at home and abroad; even with a fairly short crop, which is unlikely, a fair return is promised to southern farmers.

Tire and rubber goods plants have kept pace with the automobile factories. Orders for electrical equipment of all sorts continue the uninterrupted upward trend noted for many months past, and are running some 25 per cent above a year ago. The furniture trade is reported as enjoying a six-year peak, and the value of its product for this year is being estimated at approximately $450,000,000 against $320,000,000 in 1935.

CONSUMPTION. Retail trade generally is 10 to 28 per cent above a year ago, having reached the best level since early in the depression. Department store sales for May, the last month for which figures are available, reached an index figure of 88, according to the Reserve Board's computation, as compared with 81 in April and 76 in May 1935. Preliminary June reports suggested a further increase. This gain, it appears, represents a rise in the actual turnover of goods. There has been practically no increase in prices for consumption goods over a year ago.

HEAVY GOODS. Although the most striking improvement this year has been in the heavy goods industries, the betterment is noteworthy, with a few exceptions such as machine tools, because it had been absent from the business recovery picture up to the end of 1935. Moreover, the rates of gain are calculated, it must be remembered, upon a very narrow base; they are much more impressive in percentages than in dollars. Output of heavy goods in some lines has been so slow that an improvement of 100 per cent still leaves the record a mere fraction of normal.

For example, building contracts awarded in May made an index figure of 53 as compared with 30 in May 1935. That is

The Month

On the opposite page, from left to right and top to bottom: Borah, Robinson, Vandenberg, Wallace; White, Fletcher, Hoover, Garner, Hull; Knox, Roosevelt, Landon, Snell; Hamilton, Hopkins, Townsend, Ickes, Coughlin; Norris, Farley, Lemke, Steiwer

KEYSTONE

In a report to Congress, the S. E. C. has indicated that it will soon initiate a plan for segregating functions of brokers and dealers on the floors of the organized exchanges. Chairman Landis (left) stated that this program would be aimed at practices which the commission believes harmful to investors through the accentuation of price trends.

In another report, the commission raised again the question of whether trust business should be segregated from commercial banking. Committees of the A. B. A. and I. B. A. have been studying corporate trusteeships with special reference to the need of changes in indentures.

a good showing, but it is still far from 100. There has been a tendency toward a levelling-off of non-residential and a further increase in residential construction, the latter being stimulated, no doubt, by the amortized mortgage arrangement.

DEPOSITS AND RESERVES. How much increasing gold imports and Government outlays for bonus payments will swell deposits and excess reserves is a question of primary interest to the banking profession. The coincidence of the veterans' checks and the Government's June financing made it impossible to evaluate fairly these influences until the flow of bonus money into the banks could be measured and adjustments made in the light of return of deposits, excess reserves and investment changes effected by the Treasury's security offerings last month.

By mid-June, imports of gold since April 24, when the latest movement started, approximated $375,000,000, and will account for an increase of that size in bank deposits. One uncertain factor in the deposit situation is the proportion of the June financing proceeds the Treasury will hold in commercial banks and in the Reserve banks in pursuance of its policy of keeping down members' reserves by its central bank deposits.

"OTHER" LOANS. There had recently been a slight increase in outstanding "other" loans of the reporting member banks—chiefly seasonal in character—although during early June the tendency was downward. By the middle of the month these loans totaled $3,583,000,000, or $275,000,000 above the level of a year ago. This was hardly a material increase as compared with normal demand and the amount of bank credit available, but at the same time it was more of a rise than had been recorded at the same time last year.

NEW CAPITAL. The same tendency has been evident in new capital issues. Corporate flotations for new money totaled $213,000,000 during the first four months of 1936 compared with $35,000,000 in the same period of 1935. New state and municipal issues dropped from $288,000,000 to $248,000,000, but new offerings of stock jumped from $2,000,000 to $53,000,000 and new foreign issues totaled $44,000,000, whereas a year ago there were none.

BONDS AND STOCKS. Naturally, the investment market continues to get its chief sustenance from Government loans —more than $4,000,000,000 in the March and June financing, of which substantially half was new money. Also, there has been an increase in short and medium term Treasury bill offerings and a rise of $160,000,000 in outstanding "baby" bonds.

As for stocks, it is interesting to note that their gradual recovery from the Spring break was accomplished in the absence of the inflation psychology which was reputedly responsible for much of the rise in the year previous. Undoubtedly, a liberal proportion of the current investment demand for shares is coming from persons who normally buy bonds but who now feel that they cannot afford to take the low yields offered in the market for senior securities.

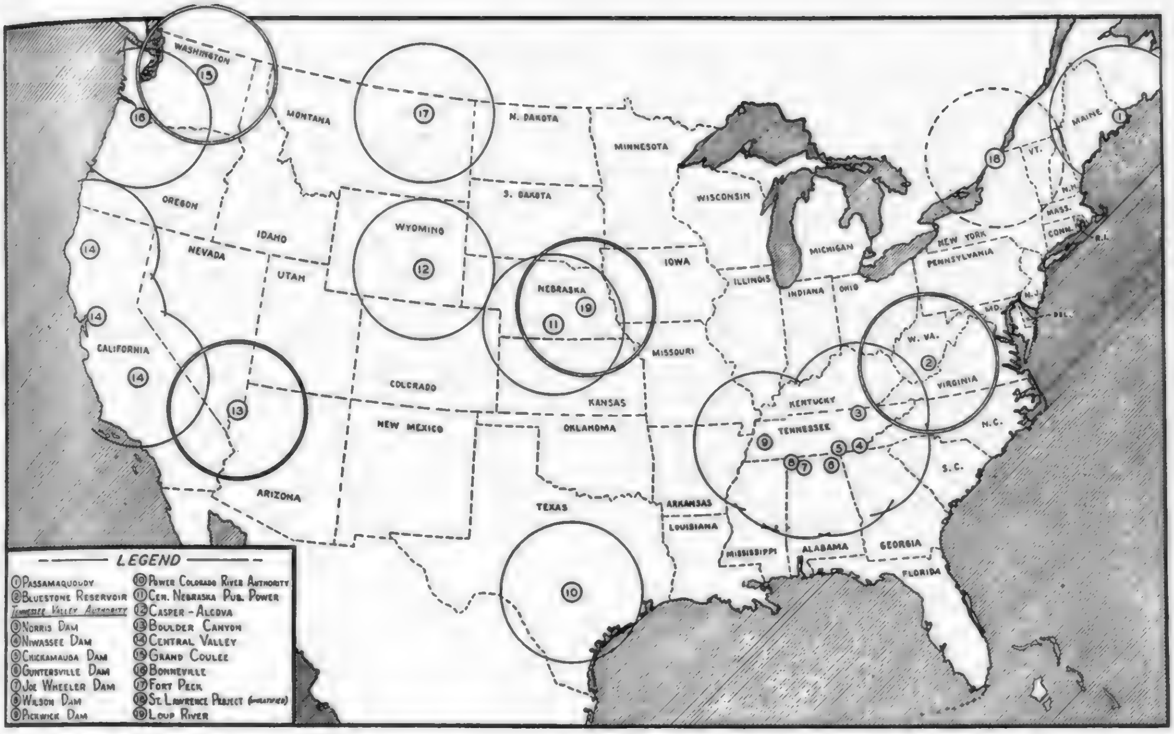
Meanwhile, the Securities and Exchange Commission is taking further steps toward completely and permanently regulating the security business in its plan to segregate brokers and dealers on the floors of organized exchanges. The commission's stated purpose is to curb the type of trading which accentuates price trends.

TAXES. For the present, effects of the tax bill passed by a Congress that was anxious to adjourn appear to have been fairly well discounted by business, and it is possible, of course, that the next Congress will see fit to make alterations in the light of intervening experience with the measure just enacted. The whole question of public finance deserves careful, conscientious study.

VACATIONS AND—

The business of lawmaking temporarily at an end, the business of politics begins in earnest. Below, three Congressmen (Patman, Colmer, Ford) buy their railroad tickets at the House ticket office. The legislative body that has just adjourned is being called the $20,000,000,000-Congress—spent, not saved

ACME



Areas affected by major Federal and state power projects. (Courtesy, Poor's Bond Advisory Service)

<u>Bank Profits</u>. How completely the banks have cleared away the wreckage of boom and depression years appears graphically in the fact that institutions in the Federal Deposit Insurance System had net additions to profits last year of $207,000,000 as compared with a net loss of $339,000,000 in 1934. However, this result was obtained more by stopping losses than by increasing gains and is more an evidence of completed liquidation than of increased earning power.

Gross and net earnings on current account do not make much of a showing. Total earnings from current operations between 1934 and 1935 fell from $1,515,000,000 to $1,485,000,000. Current expenses also were reduced from $1,067,000,000 to $1,042,000,000—good, but not good enough to cover the loss in earnings. Recoveries increased from $292,000,000 to $432,000,000.

What really counted, however, was a decrease in losses and write-offs from $1,079,000,000 to $668,000,000. The change in recoveries and losses thus amounted to $551,000,000, which covers a multitude of other items. The increase in dividends made possible by the improved situation has not been large but is especially significant because on the whole the dividends have been paid without drawing upon previous profits.

Comparing the earnings with returns of the earnings and expenses of member banks in the Reserve system for the two years preceding the advent of deposit insurance, it appears that the total earnings from current operations per $100 of capital funds were $27.44 in 1932 and $25.22 in 1933 in member banks as compared with $24.27 in 1934 and $23.98 in 1935 in all banks. The trend indicated is in line with the common experience of most banks in the difficulty of finding profitable employment for their constantly increasing funds.

In view of rising living costs, increased taxes and other mounting expenses of doing business it is generally considered impracticable, if not impossible, to reduce current operating expenses further. The Federal authorities expect most of the serious writing-off of old losses to be completed during the current year, which means that hereafter there will be improved chances for proper dividends. But the problem of securing such dividends must be solved by increased earnings.

—VACATIONS

Private citizens are also buying tickets. Vacationers and others, it is reported, are making the most of the cut in railroad fares which resulted from the I. C. C. decision to reduce the basic rate to 2 cents a mile. President Willard of the B. & O. said of revenues on June 17 that "reports from important points on our line show they have increased."

ACME

PICTURES BY JOSEPH J. STEINMETZ

Graduate School

STUDENTS attending the second resident session of the Graduate School of Banking, held at Rutgers University, New Brunswick, New Jersey, June 22–July 3, came from 232 towns or cities in 40 states and Puerto Rico.

Bankers from 47 Pennsylvania localities were enrolled, giving that state first place in the total communities represented. Next came New York with 42 towns or cities, while New Jersey was third with 31.

In the number of registrants, however, New York was first with 95, Pennsylvania coming second with 65 and New Jersey again third with 43.

By states, the distribution of the remainder of the students was as follows:

Alabama 5, Arizona 1, Arkansas 4, California 5, Colorado 2, Connecticut 11, Delaware 3, District of Columbia 12, Florida 3, Georgia 8, Illinois 12, Indiana 3, Iowa 1, Kansas 4, Kentucky 2, Louisiana 3, Maine 1, Maryland 5, Massachusetts 16, Michigan 11, Minnesota 2, Missouri 7, Montana 1, Nebraska 2, New Hampshire 1, North Carolina 11, North Dakota 1, Ohio 16, Oklahoma 1, Oregon 3, Rhode Island 3, Tennessee 2, Texas 10, Virginia 13, Washington 2, West Virginia 5, Wisconsin 5, and Puerto Rico 1.

Government Banking

Farm Mortgage Loans

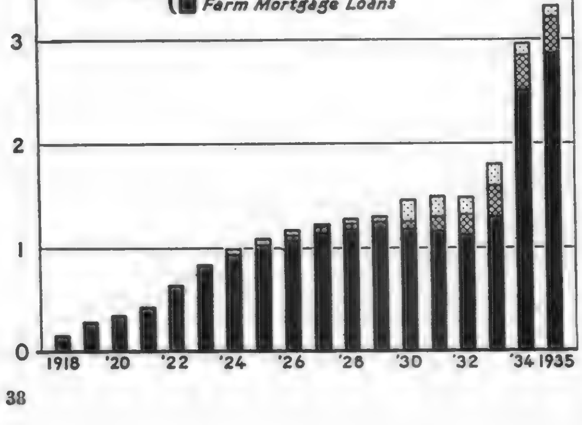
BEFORE the gavels of the presiding officers of the two houses finally came down, closing the 74th Congress, that body passed a bill extending for another year the temporary emergency rate of interest of 3½ per cent on all farm mortgage loans of the Federal land banks.

It will be recollected that on April 1, 1935, the rate of interest on all new mortgage loans placed by the land banks was reduced from 5 per cent to 4½ per cent. On April 10 it was cut to 4¼ per cent and on June 24 to 4 per cent. Four per cent is to be the permanent rate on new loans. However, the emergency acts provided that until July 1, 1936, the rate on all loans placed through the national farm loans associations should not exceed 3½ per cent and for two years thereafter should not exceed 4 per cent. After July 1, 1938, all borrowers were to pay the interest rates specified in their mortgages. Naturally this temporary rate set-up has involved a loss to the land banks, but the Government has made it good.

Nevertheless, in spite of the fact that farm income has increased to something like normal proportions and in spite of the fact that tremendous refinancing of farm mortgages and other indebtedness through the Federal Farm Mortgage Corporation has greatly reduced the debt burden of the farmer, there has been a strong faction in Congress anxious to reduce further the burden. Strenuous efforts have been made to postpone the entire temporary interest schedule one to three years or longer, depending upon the farm following of various members of the two houses of Congress. The postponement and a continuation of the emergency rate have been strongly opposed by Administration authorities. The act itself is a compromise which is significant in that it represents, so far as Executive authority goes, the limit to which the Government is to go in farm credit relief.

There are several reasons for the fixation of this limit, chief of which is that it is felt the time has finally arrived when the land bank system should be permitted to establish itself upon a permanent rather than an emergency operating basis. If this is to be done the system must be allowed to earn its keep and establish proper reserves against possible losses. In the course of its emergency financing the Government has assumed responsibility for most of the relief operations of the banks. In addition to pumping $125,000,000 of new capital into them, it authorized these institutions to postpone collection of principal payments for five years and agreed to subscribe paid-in surplus of the banks equal to the deferred payments up to a total of $145,000,000. With this Government support the condition of the banks is beyond question, but this satisfactory condition is at Government expense.

Loans and discounts outstanding by institutions under the Farm Credit Administration



The desire of the Farm Credit Administration authorities is to remove this responsibility from Government shoulders and get the banks back upon a business basis. So long as the emergency interest rates on mortgages are in effect this is impossible. It may be difficult, indeed, to restore the business of the banks to normal operations on the basis of the 4 per cent permanent interest rate now established by law. The banks can now borrow money freely at 3 per cent interest and under normal conditions the margin of 1 per cent between interest charged and interest paid will enable the banks to operate at a slight profit. This has been possible in the past in banks doing a business of $100,000,000 or over.

However, conditions are not normal. Collections have been improving greatly, rising from a low of around 57 per cent to a current rate of around 83 per cent of amounts due. But delinquencies of around 17 per cent remain and banks cannot operate at a profit and set up adequate reserves against delinquencies of 17 per cent without the full margin of 1 per cent between interest paid and interest collected.

Building Up Reserves

ANOTHER example of the desire of the farm credit authorities to prepare for the future is to be found in the action of the Federal Farm Mortgage Corporation in passing its earnings to reserves. In the two years of its operations the corporation has accumulated an excess of income over expenditures of $23,393,639, but of this amount it has set aside $8,112,923 as a valuation reserve equal to the delinquent instalments on mortgage loans, real estate and chattels acquired and in litigation. That left a net profit of $15,280,716—not much to a concern with over a billion and a half dollars of business outstanding, but quite substantial after all.

It has passed this amount to a special reserve against possible future losses on delinquencies and real estate acquired, and it proposes to continue to pass its profits to this account until the reserve amounts to 10 per cent of its outstanding second mortgage loans and 2.5 per cent of its outstanding first mortgage loans. As of March 31 this meant a total special reserve of approximately $58,200,000. Thus, any money the corporation makes in the next four years or so will be passed to a reserve for the protection of the Government against possible loss on its guaranty of the corporation's bonds.

Present indications are that the tax-free, Government-guaranteed bonds of the corporation sold to the public will

not exceed $1,500,000,000, or half a billion dollars short of the original limit fixed for farm mortgage refinancing by this means. On March 31 the amount of such bonds outstanding was $1,407,256,900. For the last two quarters the amount outstanding has been increasing at the rate of approximately $20,000,000 a quarter, but there is a steady decline in the demand for emergency refinancing, the land banks are now in a position to secure abundant funds for new loans from the market, and repayments on previous loans from the corporation are gradually approaching the amount of new loans written by the Land Bank Commissioner. Apparently the time is not far distant when a gradual—a very gradual—process of liquidation may set in.

H.O.L.C. Pays Its Way

APPARENTLY, also, the Home Owners' Loan Corporation has some idea of protecting the Government against its guaranty of the outstanding bonds of the corporation. The latter wound up its home mortgage refinancing campaign on June 12 with approximately 1,018,500 loans aggregating $3,043,024,500. Since June 30, 1935 the H.O.L.C. seems to have paid its way, partly by reason of its income from the Federal Savings and Loan Insurance Corporation and its interests in Federal savings and loan associations. Official figures concerning the latter have not been published nor will they be until they appear in the annual report for the fiscal year ending June 30, which may be expected sometime in the late Summer. Official reticence in this respect is based upon the well founded fear that if Congress learned that the corporation was paying its way instead of incurring a substantial loss, strength would be added to the efforts made by a considerable bloc in Congress to reduce the rates of interest charged on home loan mortgages by the corporation from 5 to 4 per cent, or whatever Congress thinks the traffic would bear.

Inasmuch as the corporation can now borrow money at around 2.75 per cent, the rate of 5 per cent charged borrowers seems high until the exact position of the undertaking is realized. The expense of writing over a million refinancing loans reaching into every city, town and hamlet in the entire nation with all the minutiae of such business, has been enormous. It is realized that the cost of collection of the amortized payments on these loans—over a million transactions each month—will probably be as great for some time as the cost of making the loans. Thus, if things go smoothly the corporation, for some time at least, will do well to pay its way.

In the meanwhile it faces the matter of delinquencies. Against loans in excess of $3,000,000,000 it has a capital of only $200,000,000. It has no surplus and only such reserves as it can set up out of its operations. As a matter of common business sense, if not of absolute necessity, it has been compelled to set up a cash reserve against delinquencies in interest payments lest its account for the payment of interest on its own obligations be impaired. Setting up this reserve has resulted in an apparent deficit or impairment of its capital. At first this was serious and on last December 31 it amounted to $30,290,956. Since that time the rate of increase has been slowing up, and on April 30 the apparent deficit was $34,504,740—an increase of $4,213,784 in four months, three-fourths of which was incurred in the month of January.

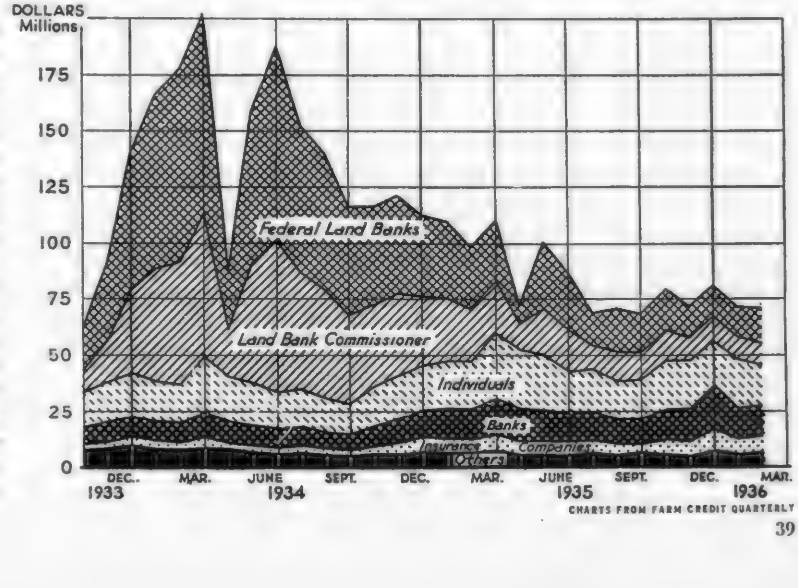
In other words, if the H.O.L.C. is permitted to pursue its present course unmolested by Congress it can pay its way and eventually build up a fair reserve as against possible losses. It is only by this means that the Government can be protected under its guaranty of the corporation's bonds. It is uncertain how much the collection of amortization payments due month by month will cost, but, since the corporation, like all similar agencies, has been brought under the control of the Bureau of the Budget and must show cause for every expenditure, there is reasonable certainty that the cost will be held to a minimum.

There is also reason to anticipate that the Corporation's investments in the Federal savings and loan associations will produce a fair net income. Many of these associations are now paying a good return on money put into them—4 per cent and even higher in some cases, as against money costing the corporation 2.75 per cent. As of mid-June there were 1,118 associations in the H.O.L.C. system with aggregate resources of $618,161,783, of which 631 with assets of $91,679,248 were new organizations and 487 associations with assets of $526,482,535 were state-chartered institutions converted into organizations under the Federal act. Hereafter the chief outlays of the corporation against which it will issue Government-guaranteed bonds will be for capital in these building and loan concerns. Up to mid-June the Government had put approximately $100,000,000 into these concerns—$50,000,000 of direct appropriation and the rest from the H.O.L.C.

Security Margins

IT is safe to say that, in the matter of regulating security exchange credit, the Government stands pat. Unless there can be more of a showing made of the loss of business by our security exchanges and the banks to foreign exchanges

Loans closed by Federal land banks and Land Bank Commissioner and estimates of new farm mortgages recorded by other lenders in the United States



CHARTS FROM FARM CREDIT QUARTERLY

and foreign banks by reason of margin rules under Reserve Regulations T and U, there will be no modification of the regulations on this account. It is common knowledge in Washington that the Reserve authorities and Government circles generally rather scoff at the idea that the loss of business will be at all material. It is generally admitted that, in theory, there is a possibility that large traders may transfer some of their accounts abroad, but the position assumed by Washington seems to be that, in practice, trading abroad involves so many difficulties and the advantage becomes so narrow that little can be accomplished by the transfer. It is generally admitted that, as claimed by brokers and others interested in the New York market, there is a distinct advantage to an American speculator in the comparative freedom from collateral loan restrictions upon the foreign markets or, in practical effect, upon the London market.

In London there are no legal or closely held margin requirements, the matter being left to the individual broker. Naturally it depends entirely upon the personal credit and financial standing of the borrower and, if the latter be well introduced and properly connected, the policy generally followed is very liberal. Some brokers for some borrowers, in fact, carry accounts without margins and, in any event, the so-called "pawnshop" method formerly so common on American markets is unknown in England. Dealings on London exchanges differ in method from those on this side of the Atlantic, the accounts being carried forward to "settlement days" which occur normally every two weeks. There is also an advantage in the fact that there is no transfer tax or similar expense for brokers in London dealing in American or other foreign securities, with the result that dealers can operate on very narrow quotations.

The general opinion in Government circles is that in casting up the account for and against foreign dealing in American stocks it will be found that the difficulties and disadvantages outweigh the advantages, except perhaps to very large operators in a special line of stocks. It is known that at times considerable market manipulation has been possible through the London exchanges, usually by placing orders through "provincial" exchanges in Great Britain or through Canada. For general trading, however, the opportunities are believed to be comparatively limited.

It is also pointed out that dollar-sterling exchange at times may become a very important factor in such operations. So far there has been no convincing indication that the practice has gained much headway. It is pointed out that in recent months there has been less shrinkage in the volume of trading in American stocks on the London market than in American markets.

"Predominantly Speculative"

THE matter of regulations of the Comptroller of the Currency governing the nature of investment securities which member banks in the Reserve System can purchase and hold for their own account bids fair to become a perennial. The latest question has had to do with the meaning of that portion of the regulation issued last February which referred to securities as listed in rating manuals. The Regulation of February 15, among other things, prohibits the purchase of investment securities in which the investment characteristics are distinctly or predominantly speculative, and a footnote to the regulation states that the terms used in the paragraph may be found in recognized rating manuals, and that where there is doubt as to eligibility such eligibility must be supported by not less than two rating manuals.

Comptroller of the Currency J. F. T. O'Connor

HARRIS & EWING

In an address before the California Bankers Association the Comptroller stated that member banks are not confined to the purchase of securities which have a rating classification in one of the four groups according to rating services. In other words, rating may be an aid in the selection of investment securities but it does not govern their selection. Among other things the Comptroller said: "The responsibility for proper investment of bank funds, now, as in the past, rests with the directors of the institution, and there has been and is no intention on the part of this office to delegate this responsibility to the rating services, or in any way to intimate that this responsibility may be considered as having been fully performed by the mere ascertaining that a particular security falls within a particular rating classification.

"Reference to the rating manuals was made in the regulation in recognition of the fact that many banking institutions, by reason of lack of experienced personnel and access to original sources, are unable personally to investigate the background, history and prospects of a particular issuer of securities, and consequently must rely to some extent upon such information as has been compiled by various rating services in their large rating manuals. It may also be expected that banking institutions will desire to supplement their own judgment by checking it against the opinion of others, including ratings that have been given by rating services. Such ratings, however, regardless of whether or not they are in the first four groups, are not conclusive on the question of eligibility."

The Comptroller also comes down hard upon securities accompanied by stock purchase warrants or rights. Says Mr. O'Connor: "It is unnecessary to remind you gentlemen of the prohibition against banks investing in stocks. The statement quoted a few moments ago relative to the danger of investment in convertible bonds equally applies to securities carrying stock purchase rights. They are speculations, and, in addition to being objectionable as such, they in effect constitute a prohibited investment in stocks because the price paid by the bank involves a premium which in part reflects the conjectural value of the stock right, and such purchase is to that extent not a purchase of an investment security. Inasmuch as the bank is prohibited by law from exercising the purchase warrant after it has been acquired, such portion of the bank funds as are allocable to the original purchase of the warrant would have been expended on no justifiable basis under the law."

Banks as Landlords

THE purpose here is to remind banks that they, as landlords, must exercise constant vigilance to see that they are meeting the legal requirements and responsibilities imposed by local regulations. These problems are here considered in the light of the New York City code, not in the expectation that bankers elsewhere will be particularly interested in its details, but because many of the points covered will be found, in some form, in other localities, and the New York situation can serve as an illustration. As a matter of fact, the New York State Multiple Dwelling Law, whose requirements are severe, has been used as a model elsewhere. Furthermore, individuals and institutions in various parts of the country have vast real estate investments in New York City, and some detailed consideration of the use and occupancy problem there may be of interest.

THE relationship of investing institutions to real estate has undergone a marked transition in the past four years. Whereas they were formerly, by vocation, lenders of money on mortgages, they have become, by necessity, landlords through the processes of foreclosure. Bankers hardly need to be reminded of this change; yet it may not be so generally realized that the new status has brought daily problems which in many instances remain rather obscure.

In addition to the legal, architectural, construction and insurance phases of property ownership about which the real estate officer of a bank must have a practical working knowledge, there is one phase that is equally important and less apparent, namely, the right of use and occupancy. Inasmuch as the foreclosures of the average large bank, especially in metropolitan areas, include old tenements, rooming houses, converted dwellings and small commercial buildings, as well as single and two-family dwellings, apartments, hotels and commercial structures of more recent construction, questions of the right and use of occupancy continually arise and must be answered.

These problems, of course, have their origin in local building laws, especially in cities which require certificates of occupancy. New York City began to issue these certificates in 1916, and many other municipalities have since adopted the practice.

The bank real estate officer responsible for vacant buildings is anxious to lease them. But, unless he knows for what purposes the property can legally be occupied and used, his institution and even its trustees or directors may become liable for damages resulting from improper employment of the premises.

Wherever certificates of occupancy or their equivalent are required, certain precautionary steps must be taken by the property owner. When a building is altered or the occupancy changed, a new certificate should be obtained before the premises are leased. Once an alteration is even started—this is true in New York—it is illegal to permit tenants to occupy the building except in the old manner until a new certificate is issued.

Sometimes an owner, thinking he can increase his income, changes a building inside without filing plans or giving any external evidence of the alteration. When foreclosure action follows his failure to maintain interest or tax payments, the search seldom reveals the fact that he has previously started a physical change. An example of this situation is a dwelling which the mortgagee obtained by foreclosure. It was a three-story and cellar house, with a Chinese laundry on the first floor and an apartment above. Not until two years after acquiring title did the mortgagee discover that an alteration had been started ten years before and that the building had since been occupied illegally, even though the owner had filed an alteration application with the city.

By HOWARD E. DRAKE

Mr. Drake is in charge of real estate at the East River Savings Bank, New York City

It is likewise dangerous to lease space in a building as a school, reading room, political club, assembly room or factory without first ascertaining what the floor load capacity is. In New York City, residences and sleeping quarters require only 40 pounds per square foot live load, whereas office space requires 50 pounds live load and reading rooms, museums and art galleries 60 pounds. Classrooms and churches having fixed seats must have a floor strength under the seating space of 60 pounds, but in the aisles 100 pounds per square foot is necessary. Likewise, in theatres and assembly halls having fixed seats, 75 pounds live load is required except in the aisles where 100 pounds is required. Floors used for factory purposes must have 120 pounds capacity.

Because of their age and the lack of sanitary and fire protection facilities, the greatest problem of the real estate officer in New York is the "old law tenements", that is, tenements erected or existing prior to April 12, 1901, as defined by the state Multiple Dwelling Law. It is sometimes difficult to recognize one of these buildings upon inspection, and the only safe way is to ascertain whether the Tenement House Department has it registered as such.

Requirements of the statute with regard to the "old law tenements" are numerous and exacting. It is unnecessary to consider them in detail here, although perhaps a brief résumé will be useful in suggesting the care which property owners—particularly mortgagees who suddenly become landlords through foreclosure—must exercise to see that their local laws are being complied with.

For instance, the following fire protection provisions must exist in these types of structures: cellar ceilings must be fire-retarding in all buildings four stories or more high; cellar stairs must be enclosed and fire-retarding in all buildings; two means of egress must be provided in every nonfireproof house exceeding two stories. The first means

must be a stairway extending from ground floor to roof. The second may be outside iron fire escapes, additional stairs, fire tower or party wall balconies.

Public halls must be fire-retarding in houses over three stories high.

In addition, there are provisions regarding proper light and air. These prohibit the use of cellar rooms for living purposes except under certain conditions; require outside lighting and ventilating facilities for public halls; and require artificial light in public halls which are not otherwise sufficiently illuminated.

In a study made of "old law tenements", it was found that the average cost of complying with the statute and doing enough additional work to make a house rentable was $3,500. In nearly 40 per cent of the cases it was advisable to vacate the property rather than spend the money or take a chance that the house might be occupied illegally, even by a caretaker's family. In 12 per cent of the cases studied a complete renovation, converting the layout to provide modern apartments, was advised.

Rooming houses also present serious difficulties to the bank real estate officer. These usually are buildings erected as private dwellings which have been converted to their present use without adequate or legal fire protection.

BASEMENT APARTMENTS

THREE-family houses likewise are often found to be illegal. These usually were built for two families and the mortgages were so placed. The owner, after receiving the certificate of occupancy from the city and his loan from the bank, would rearrange the basement to provide an additional apartment for himself. To legalize the building, changes must be made, although they are usually few in number and their cost is not burdensome.

To simplify the duties of the real estate department and to safeguard the investment, at the time a mortgage loan is made the mortgage officer should obtain a copy of the certificate of occupancy, a complete set of floor plans in miniature, and an engineer's survey showing entrances, etc. If the truth were known, very likely many institutions would find that some of their mortgages cover properties that were illegal when the loan was made, and are still illegal today. A periodic inspection of the premises by a capable man, supplementing the aforementioned papers, would very often prevent foreclosure troubles.

Reaching Title II Borrowers

By COWLES ANDRUS

Assistant Cashier, Passaic National Bank and Trust Company, Passaic, New Jersey

FROM the standpoint of the banker, soundness of the mortgage is the primary concern in considering the F.H.A. single mortgage plan or any other mortgage plan, for it is synonymous with the safety of the depositor's money which is entrusted to the lending bank. Accordingly, in shaping our policy at the time of the Federal Housing Administration's assumption of its duties under Title II of the National Housing Act, we directed our inquiry to determination of the features, if any, which made the Administration's plan more safe, or less safe, from the investment standpoint, than the basis on which we were then making mortgage loans.

Based upon a favorable view of the plan, we promptly accepted it in principle and undertook an advertising campaign designed to keep our mortgage loan department fully occupied in handling applicants for the new form of mortgage. Our force was gradually augmented until now part of one officer's time and the full time of three men and two women employees of the bank is devoted to handling the F.H.A. division.

The early advertising was of an informative nature, whereas the later copy has been more of the appeal to home ownership type. At the outset our problem was to forestall idle inquiry as well as to promote inquiry for legitimate prospects for financing new construction or refinancing of existing liens. By making plain in relatively detailed copy the principal requirements, we saved ourselves time by keeping out of the

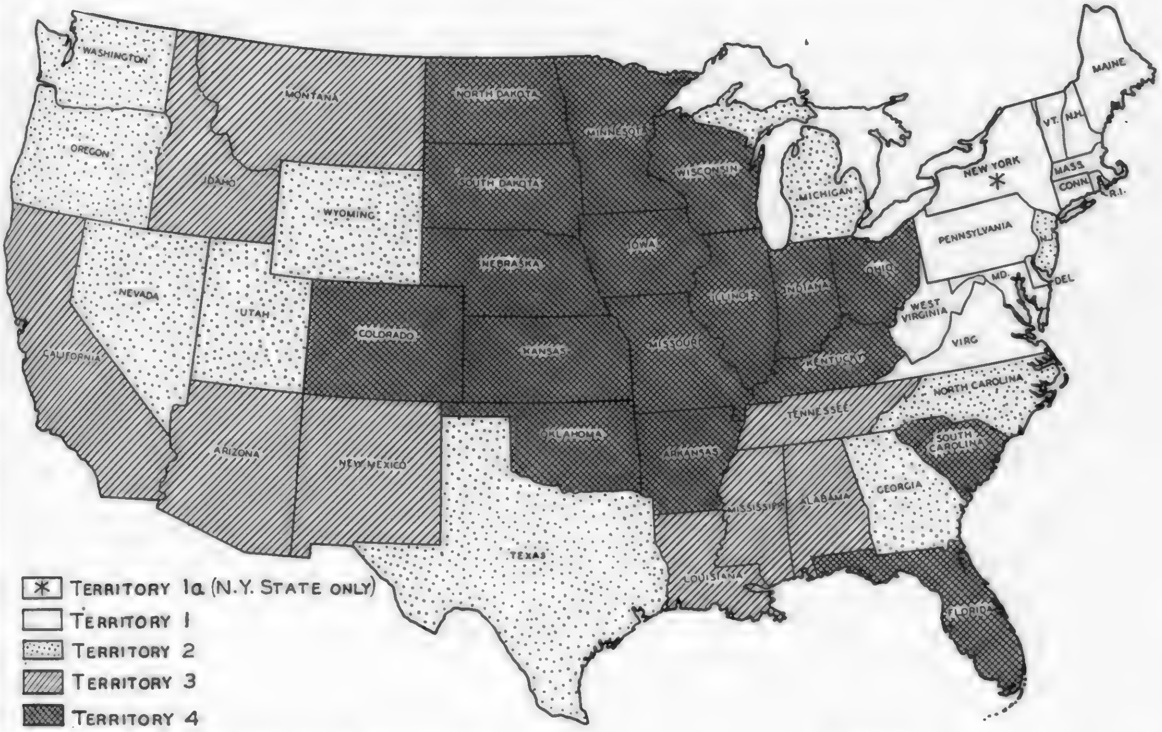
bank those who could intelligently determine from the advertisements that their property was not eligible for insurance, or that their credit position would not meet our requirements. We think the knowledge of the plan is now so general that we can make the appeal to its simplicity and to the benefits of home ownership as contrasted with the perpetual payment of rent.

Use of the Sunday editions of two of New York's leading newspapers has proved profitable. In addition we have produced a 10-minute moving picture depicting several residences on which we have placed mortgages. These have been selected geographically to give point to the fact that our service covers northern New Jersey, and they likewise present a good cross-section of purchase prices for single family homes. The title for each home gives the pertinent information as to the monthly payment, number of rooms and baths, whether equipped with oil burner and air conditioning and name of the town; and we have given a few of our steadier sources of supply the advantage of having their names as builder or developer included with the picture of the house. Color photography and "talkies" are refinements which can be had in this form of advertising.

The better contacts have proved to be realtors and tract developers, builders, architects, and materials dealers. As in any public relations work we have in mind being represented at relevant group meetings.

In some cases we follow up by personal call inquiries resulting from advertising. In all cases we insist upon giving ourselves the benefit of a personal call from the individual requesting our depositors' money for use over a period of years. At this interview we assist the applicant in the completion of the application blanks, and satisfy ourselves on many points of his credit picture that would go undiscovered were we to rely upon the information which might be provided were the application prepared by the realtor or materials dealer. On the theory that writing an ill-chosen mortgage is a very expensive way ultimately to buy Government bonds, our credit checking is very thorough. We do not wish to put the burden of detecting poor credit risks and inadequate income cases upon the F.H.A. office.

Lower Bank Robbery Insurance Rates and New Territorial Classifications



STATES COMPRISING EACH TERRITORY

Territory 1a includes New York State only.

Territory 1 includes these states:

Connecticut, Delaware, Dist. of Columbia, Hawaii, Maine, Maryland, Massachusetts, New Hampshire, Pennsylvania, Rhode Island, Vermont, Virginia and West Virginia.

Territory 2, beginning June 8, 1936, includes these states:

Alaska, Georgia, Michigan, Nevada, New Jersey, North Carolina, Oregon, Texas, Utah, Washington and Wyoming.

Territory 3 includes these states:

Alabama, Arizona, California, Idaho, Louisiana, Mississippi, Montana, New Mexico and Tennessee.

Territory 4, beginning June 8, 1936, includes these states:

Arkansas, Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Wisconsin, Florida, Kentucky and South Carolina.

These new classifications embody the following changes from the classifications existing prior to June 8, 1936: Florida, Kentucky and South Carolina were transferred from Territory 2 to Territory 4.

THE ROBBERY INSURANCE RATES FOR EACH TERRITORY NOW IN EFFECT

Territory 1a (N. Y. State)

	Rate
Towns less than 1,000 population	$1.20 per $1,000
Towns 1,000 population and over	1.00 " "

Territory 1

	Rate
Each $1,000 of first $10,000 (for money or securities or both, not subject to any discount)	$2.00
Each $1,000 over $10,000	1.00

Territory 2

Population	*Rate for each $1,000 of first $10,000 (for money or securities or both, not subject to any discount)*	*Rate for each $1,000 over $10,000*
In Towns of 1 to 9,999	$8.00	$4.00
" " " 10,000 to 24,999	8.00	3.00
" " " 25,000 and over	8.00	2.50

Territory 3

Population	*Rate for each $1,000 of first $10,000 (for money or securities or both, not subject to any discount)*	*Rate for each $1,000 over $10,000*
In Towns of 1 to 9,999	$12.00	$6.00
" " " 10,000 to 24,999	12.00	5.00
" " " 25,000 and over	12.00	3.50

Territory 4

Population	*Rate for each $1,000 of first $10,000 (for money or securities or both, not subject to any discount)*	*Rate for each $1,000 over $10,000*
In Towns of 1 to 9,999	$16.00	$8.00
" " " 10,000 to 24,999	16.00	6.50
" " " 25,000 and over	16.00	5.00

Investment Advice by Banks

SHOULD the savings bank discuss questions of investment with depositors? There has been much difference of opinion on this matter. Those taking the negative view have reasoned: "It might be dangerous—and in some cases mean unfavorable publicity. It is not the function of the savings bank, and depositors might blame us if they lost money, or on the other hand if they lost an opportunity of making money."

This, perhaps, is the reflection of an attitude of mind of years past, when in so many savings banks inquiries concerning investment met with the reply: "Don't touch it. What do you want to invest for? Isn't the savings bank good enough for you?"—or "We can't give you any advice about such things. You'd better just leave your money here, and forget about investing."

SITUATION HAS CHANGED

IT might not be amiss, however, for us to remind ourselves that conditions have changed a good deal, and that the savings bank depositor of today is quite different from the savings bank depositor of 40 or even of 25 years ago. Conditions have made it possible for many savings bank depositors to accumulate over a period of years sizeable amounts in their savings accounts. Furthermore they have a different viewpoint. During the War, Liberty Loan drives aroused an interest in investing on the part of many persons of small and moderate means. This interest continued, and was followed by a tremendous wave of investment and speculative buying in the 1920's. The savings bank depositor was not immune to this. He began to adopt a different attitude toward his savings; he no longer was content to let the bank do the investing for him, paying him a reasonable interest on the money he had on deposit; but he desired to participate actively in the investment of his surplus funds. This view was not held by the more conservative of the savings bank clientele, but it undoubtedly was the attitude of a large number of depositors.

Many of these would-be investors had no other bank connection, so they began asking their savings banks about investing in bonds and stocks. They heard friends and acquaintances discussing all sorts of investments; they saw them investing—and speculating—and many times making money. They had no contact with a bond or investment banking house; and it seemed perfectly natural to them to turn to the savings bank for such information. To many of them this matter of investing was a good deal of a mystery. Many did not know the difference between a first mortgage bond and a debenture, or for that matter, between bonds and stocks.

A number of savings banks—among them our own institution—felt that they had a definite responsibility along this line toward their depositors. They realized that many depositors had no other means of securing the fundamental information they should have, and so—instead of refusing to discuss these questions with customers, thereby leaving them prey in many cases to the unscrupulous promoter—they welcomed the opportunity of talking with them. This gave the savings bank the chance to explain the requisites of a sound investment, thus retaining for the legitimate investment field thousands of dollars that might have found its way into highly speculative channels. It also afforded the bank the opportunity of discussing personally with the customer the question of whether or not he was in a financial position that warranted his making the investment.

The inquiries that come to us are many and varied. Sometimes the customer merely wishes to check up on securities he already holds; sometimes he wishes information about securities he is considering for purchase.

It is our policy not to recommend specific securities, but rather to show what we, a savings bank, consider a sound investment policy; to apprise the customer of what we believe he should look for in making an investment; and to point out the importance of working out a well balanced financial program. Where information is sought in reference to particular securities, we show the reports published by two investment analysis services that we have on file. This often affords an opportunity of making comparisons between different industries as well as comparisons of different companies in the same industry. Earnings reports over a period of years, financial condition of the company in question, and recent comments both favorable and unfavorable that have been published are brought to their attention.

Many instances could be given with differences only in the amount of money involved and the size of the family. Sometimes there are dependents, sometimes not. One example was Mrs. R., who had a son in college and was determined that nothing should interfere with his education, though he wanted to get a job at once. Enough money was set aside in savings accounts to insure a good emergency and reserve fund, and also to furnish the necessary funds for the completion of his college course and the graduate work that had been planned before his father's death. She then proceeded to invest the rest, most of it in high grade bonds, but with a small percentage in preferred stocks in order to obtain a better yield.

DEPOSITOR'S ALTERNATIVES

OUR part in her decision consisted of showing her statements, pointing out the difference in earnings of various companies, and calling her attention to recent reports. What if we had not done this? It is quite possible that she might have secured the information elsewhere and purchased securities that would have been suitable and have given her the additional income she needed; on the other hand, it is possible that she might have continued to draw on her principal, or that she might have purchased the sort of securities that she was in no position to hold.

Women are by no means the only ones seeking information on investments. There are a great many customers, both men and women, with surplus funds to invest, who take advantage of the investment service we offer. Usually they want to talk over, with some one who has no securities to sell, the investments they have in mind. Sometimes, however, they are not in a position to invest in anything. Then we (CONTINUED ON PAGE 46)

By MABEL F. THOMPSON

Director of the Service Department, Union Dime Savings Bank, New York City

"Installation of the Recordak system in the Deposit Guaranty Bank and Trust Company has:

1. Furnished accessible records to verify credit information.
2. Furnished film records of checks — source of leads to follow for credit references.
3. Reduced operating cost in Transit and Bookkeeping Departments.
4. Made possible handling of substantial increase of volume in our Bookkeeping Department using one less employee for this work.
5. Eliminated complete description of items on transit cash letters, the time of two people thus being saved in Transit Department.
6. Eliminated bulky records which necessitated numerous files occupying a large floor space.
7. Given complete records of customer's receipts for money (checks paid against accounts).
8. Protected bank against fraud.
9. Enabled this bank to greatly increase its usefulness in service to customers."

(Excerpt from a Deposit Guaranty Bank & Trust Company letter)

YOUR depositors, stockholders, and officers will all benefit by a Recordak installation in your bank. Hundreds of other banks with problems similar to yours have saved up to 45% in per item costs . . . 50% in supplies . . . 90% in storage space—and have increased accuracy and efficiency with Recordak photographic accounting systems.

We shall be glad to show you what Recordak can do for you . . . how your bank can make such savings. Recordak Corporation (subsidiary of Eastman Kodak Company), 350 Madison Avenue, New York City.

HOME OF THE DEPOSIT GUARANTY BANK & TRUST COMPANY, JACKSON, MISSISSIPPI

Recordak

ACCOUNTING BY PHOTOGRAPHY

suggest the advisability of first building up a larger savings account. Such was the case of Mr. and Mrs. N. They had been married about a year, had a few hundred dollars saved, and wanted to draw it all out and buy stock.

"Everyone else is doing it", Mr. N. said, "and maybe we can make some money."

The conversation soon disclosed that while their budget provided for some savings, it did not include insurance. Investing, we pointed out, was something that we felt should be considered only after a good reserve fund had been built up, and adequate insurance taken out. What would happen in the case of illness, or any emergency, or a change in jobs, if there was no money left in the savings account? How could they be sure that the stock they were thinking of would go up? A few days later Mr. N. told us that they had decided to take out insurance and wait until they had $1,000 or more in the bank before investing, because, he said, "we'll then feel a lot more comfortable."

REASSURANCE WANTED

OCCASIONALLY a person of considerable means comes to us—as did Miss V. early this year. She was greatly perturbed because members of her family and certain friends were urging her to dispose of her bonds and put her money into stocks. She is conservative by nature, and has most of her money in high grade bonds and in United States Treasury notes, purchased at advantageous prices. She wanted to please her family, but on the other hand she was by temperament the last person in the world to hold any but very conservative securities. What she wanted was not advice on individual securities, but a chance to talk over the whole situation with us, and actually reassurance from us that her investment policy was sound.

Then there was Mr. B. who had large holdings in high grade bonds. Some of his bonds were being called, and he had a considerable sum that might be reinvested. He could not decide whether or not to purchase other securities, but after going over many reports he came to the conclusion that the ones he had in mind were "not good enough", and that for the present he was going to leave his money in savings banks.

"But what of the person who is desirous of speculating in common stock?" a bank president said to me recently. "If you discourage him and he doesn't buy, isn't he likely to blame the bank if the stock goes up and he has lost the chance to make a profit? Or, if he does buy and his stocks go down, doesn't he also blame you and perhaps construe the showing of reports as recommendations on the part of the bank?"

This has not been our experience. On the contrary, customers have time and again gone out of their way to express appreciation for the service the bank has been able to render them in this respect. We believe the reason for our favorable experience is the fact that we always make a point of telling the customer that we are glad to give him whatever information we have, but that we cannot make definite recommendations as to whether or not he should buy any particular stock. We also point out that there are many elements that affect market values. We remind him, too, that the purchase of stock involves certain business risks and suggest that he should not buy unless his financial position is such as would justify his assuming the risks.

12 YEARS' EXPERIENCE

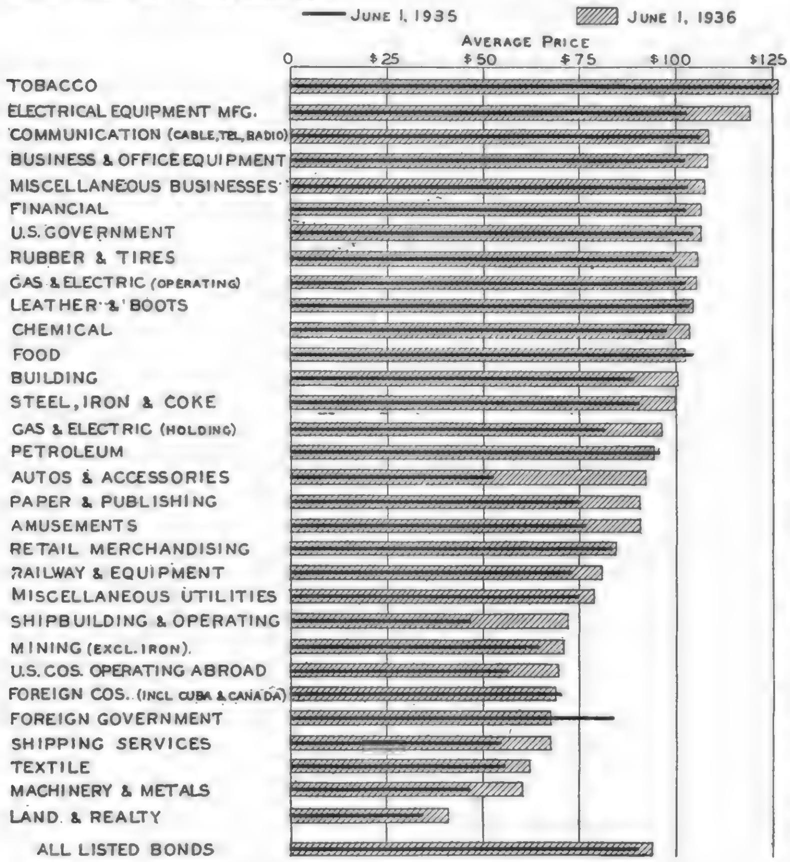
DURING the past 12 years, covering a period of rising market values, of stock market boom, of panic and a falling stock market, and again of a gradual improvement in business with its attendant rise in prices, we have been giving this service to savings depositors. What has been the result? To individual customers it has meant in many cases the conserving of principal, the purchase of more conservative securities than they had contemplated, and a larger cash surplus in savings accounts than they had intended. To the bank it has meant thousands of dollars kept on deposit, new depositors sent by satisfied customers, and a tremendous amount of good will which cannot be measured in terms of money.

COMPLEXITY

"During the past year my husband died and with our savings and his insurance, I have about $17,000 in savings accounts, but I can't live on the interest, so I have been drawing on the principal. I don't want to keep on doing that. I have one son, who is working and giving me $10 a week. That pays for our food and some incidental expenses, but there is rent, gas, electricity, clothing, and so on—and I should have at least another $50 a month. My savings bank interest at 2 per cent amounts to only $340 a year—$29 a month.

"My friends tell me to invest my money and that, if I did, I could get two or three times as much interest, but I don't know what to invest in, or where to go."

Below, a chart showing the price changes in certain categories of bonds listed on the New York Stock Exchange



Many clients have been able to enjoy great savings through the advice of their Bankers

● These are days when a man's best friend is frequently his banker. For although the layman values economy, and strives for it . . . he often lacks the specific knowledge that enables him to recognize true, sound, *safe* economy.

There is a wide variety of business affairs on which a word of advice from the banker may effect great savings for the client. And very important among them is the matter of selecting insurance.

Mutual fire insurance—with an unequalled record for soundness and stability emphasized through the recent years—offers a savings factor which conservative bankers immediately recognize as something of real value to their customers. Mutual fire insurance has been saving money for its policyholders consistently for nearly 200 years.

We would like to send to you, or to any of your clients, a very interesting booklet which we have prepared on Mutual fire insurance. A free copy will be mailed to you promptly on request. Federation of Mutual Fire Insurance Companies, 919 North Michigan Avenue, Chicago, Illinois.

This seal identifies a member company of The Federation of Mutual Fire Insurance Companies and the American Mutual Alliance. It is a symbol of soundness and stability.

MUTUAL FIRE INSURANCE

An American Institution

CALENDAR

Important Addresses

MESSAGES on banking service, banking education and various aspects of public problems have been delivered in many sections of the country during recent months by officials of the American Bankers Association. Most of these addresses were made to state association conventions, although some had non-professional audiences.

Robert V. Fleming, President of the Association, Tom K. Smith, First Vice-president, Orval W. Adams, Second Vice-president, and Fred N. Shepherd, Executive Manager, have dealt with numerous phases of Association work and general questions of interest to bankers and the public in the course of their series of speeches.

Mr. Fleming has stressed particularly the need for a better public understanding of banking and the development of banking service. Mr. Smith's talks have partly concerned Government agencies, while Mr. Adams' have included the question of Government credit. Mr. Shepherd, speaking to a number of state associations in the West, has considered organized banking as an educational force.

President Fleming spoke to the St. Louis Chamber of Commerce on February 7; to Washington Chapter, American Institute of Banking, on February 22; the Advertising Club of New York on February 13; to a nationwide radio audience on April 22; to the District of Columbia Bankers Association at White Sulphur Springs, West Virginia, on May 28; and to the Pennsylvania Bankers Association on May 21.

Mr. Smith's appearances have included the conventions of the Oklahoma Bankers Association at Tulsa on May 8; the Missouri-Kansas associations at Kansas City, Missouri, on May 5; the Tennessee-Mississippi associations at Memphis on May 20; the Arkansas association at Hot Springs on May 21; and the Illinois association at St. Louis on May 26.

Mr. Adams' calendar of speaking engagements has included: Sons of the American Revolution, Salt Lake City, on February 22; the California Bankers Association at Sacramento on May 21; the Oregon Bankers Association at Portland on June 13; the Central States Conference at Excelsior Springs, Missouri, on March 30; and the Colorado Bankers Association at Denver on June 19.

Mr. Shepherd talked to the New Mexico Bankers Association at Raton on May 15; the California association at Sacramento on May 21; the American Institute of Banking's convention at Seattle, Washington, on June 9; and the Oregon association at Portland on June 12.

Bonus Service

PAYMENT of the Adjusted Service Certificates has been a huge banking transaction presenting opportunities for service that were not limited to the cashing of checks.

Although banks provided the machinery for putting into circulation the proceeds of the Government's payment to the veterans, they also have had occasion, in countless instances, to offer friendly, helpful advice. The question in many veterans' minds as they faced the prospect of an addition to their assets was "What shall I do with the money?", and banking institutions were widely consulted.

In a letter sent to all members of the American Bankers Association prior to the bond distribution, Robert V. Fleming, President of the Association, asked the banks to give all possible cooperation to veterans in the handling of their bonus checks. He also requested veterans' organizations to help the banks by supplying necessary identification for veterans who wished to cash bonus checks but who were unable to establish identity through a bank.

"The President of the United States," Mr. Fleming wrote, "has urged that the banks of the country extend all possible assistance by cashing these checks at par upon proper identification, and I feel quite sure that the members of our Association will render the fullest cooperation by lending every possible assistance to the veterans in the handling of these transactions in the same cooperative spirit which they exhibited in connection with the various Liberty Loan campaigns."

State Association Activities

MINNESOTA

IN planning the annual meeting of the Minnesota Bankers Association at Duluth, July 1–3, arrangements were made for a post-convention cruise, July 3 to 7, from Duluth to Mackinac Island and return. It was decided not to limit the trip to association members, but to offer its vacation opportunities to all Minnesota bankers and their families.

(CONTINUED ON PAGE 50)

CONVENTIONS

A.B.A. Meetings	
June 22–July 3	Graduate School of Banking, Rutgers University, New Brunswick, New Jersey
Sept. 21–24	A.B.A. Convention, St. Francis Hotel, San Francisco, California
State Associations	
July 1–3	Minnesota, Duluth Hotel, Duluth
July 24–25	Montana, Old Faithful Inn, Yellowstone National Park
Nov. 6–7	Florida, Tampa
Group Meetings	
Sept. 3–4	Savings Banks Association of Maine, Breakwater Court, Kennebunk Port, Maine
Sept. 10–12	Massachusetts Savings Banks Association, New Ocean House, Swampscott
Sept. 24–25	Savings Banks Association of the State of New York, Waldorf-Astoria Hotel, New York
Other Organizations	
June 28–July 2	Annual Convention of Advertising Federation of America, Hotel Statler, Boston, Massachusetts
Aug. 4–6	National Security Traders Association, Los Angeles, California
Sept. 7–12	Third World Power Conference, Washington, D. C.
Sept. 14–17	Financial Advertisers Association, Nashville, Tennessee
Sept. 20–23	American Transit Association and Affiliates, White Sulphur Springs, West Virginia
Sept. 21–23	Morris Plan Bankers Association, The Homestead, Hot Springs, Virginia
Oct. 7–9	Mortgage Bankers Association, Hotel Peabody, Memphis, Tennessee
Oct. 8–11	Annual Meeting of Association of National Advertisers, White Sulphur Springs, West Virginia
Oct. 14–16	Annual Convention of the United States Building and Loan League, New York, N. Y.
Nov. 16–21	Annual Convention of National Association of Real Estate Boards, New Orleans, Louisiana
Dec. 2–6	Investment Bankers Association, Bon Air Hotel, Augusta, Georgia

CALENDAR — Continued

SOUTH DAKOTA

GEORGE M. STARRING, Huron, South Dakota, has been elected secretary-treasurer of the South Dakota Bankers Association, succeeding his father, George A. Starring, who has resigned.

Bond Traders' Convention

BOND traders from all sections of the United States will attend the third annual convention of the National Security Traders Association in Los Angeles, August 4, 5 and 6.

Founded three years ago, the organization has experienced rapid growth and now has more than 1300 members in leading financial centers throughout the country. Chester M. Glass, Jr., resident manager of the San Francisco office of William R. Staats Company, as chairman of the 1936 convention committee, is in charge of plans.

Arrangements for a special train, tentatively planned to accommodate 400 delegates, have been made by Edward H. Welch of Charles Sincere & Company, Chicago. The special leaves Chicago on August 1 and arrives the morning the convention opens. Its return trip will be by way of San Francisco and the Pacific Northwest.

The Los Angeles convention committee has invited all bond traders, regardless of membership in the association, to attend the convention.

U.S.B.L.L. Convention

FOR the first time in 31 years, the United States Building and Loan League will hold its annual convention — the 44th — in New York City this Fall. The dates are October 14–16.

It is estimated by LeGrand W. Pellett of Newburgh, New York, president of the League, that the institutions to be represented at the convention, including cooperative banks, savings and loan associations, building and loan associations, and homestead associations, will have disbursed approximately $800,000,000 in new loans between January 1 and mid-October.

Federal home loan bank presidents from Boston, New York, Cincinnati, Winston-Salem, Pittsburgh, Indianapolis, Chicago, Des Moines, Topeka, Little Rock, Portland and Los Angeles, the regional bank cities, will meet with the building and loan people, with whom practically all of the banks' $100,000,000 of current business is transacted.

New committees reporting to this year's convention include those groups which have been studying the Federal Housing Administration and the Federal savings and loan associations.

Bank Women's Convention

THE 14th annual convention of the Association of Bank Women will be held in San Francisco, September 18–22, with headquarters at the Western Woman's Club.

Miss Susan B. Sturgis, assistant branch manager of the First National Bank of Boston, president of the association, has announced the following convention committee chairmen: general chairman, Miss Grace S. Stoermer, assistant vice-president of the Bank of America, N. T. & S. A., Los Angeles; program, Miss Mildred Roberts, assistant cashier, Citizens National Trust & Savings Bank, Los Angeles; publicity, Mrs. Minnie S. Atkisson, assistant manager of the Wilshire-Vermont office, Seaboard National Bank, Los Angeles; entertainment, Miss Meta Mohr, manager of school savings department, Farmers and Merchants Savings Bank of Oakland. Mrs. Jennie Taylor, assistant trust officer, Bank of America, N. T. & S. A., San Francisco, and regional vice-president of the western division of the A.B.W., is also assisting with convention plans.

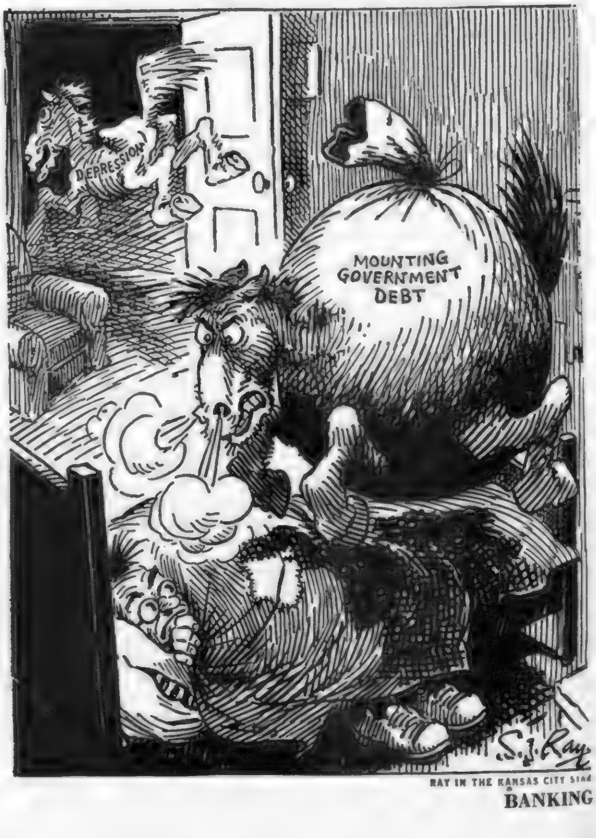
Some members of the Association of Bank Women attending the convention go also as delegates to the Annual Convention of the American Bankers Association at San Francisco, September 21–24. Accordingly, in planning the program Miss Stoermer and Miss Roberts expect to keep Monday and Tuesday, September 21 and 22, free so that A.B.W. members may attend sessions of the A.B.A.

The bank women's convention opens with a business session on Friday, September 18, to be followed by a luncheon at which speakers will be A.B.W. members. The Saturday morning session will be given over to reports of standing and special committees, and the luncheon that day will be addressed by a number of women on the Coast who are prominent in the business and professional world.

Account Analysis Survey

THE Bank Management Commission, American Bankers Association, has published as Bulletin No. 19, the Survey on Account Analysis, resulting from a nationwide study of practices followed by banks in analyzing their larger and more active accounts, as well as the rates charged for the various services rendered these accounts. The survey was discussed in the June issue of BANKING by Frank W. Simmonds, Deputy Manager of the Association.

Changing Nightmares in the Middle of the Dream



RAY IN THE KANSAS CITY Star

What One Woman Thinks of Banks

By DOROTHY REYNOLDS

The author, who prefers to use her pen-name, is well known in financial advertising circles

I KNOW well enough that the general opinion of men toward women's banking and financial ability is not any too high. The subject of feminine bookkeeping and stub-accounting systems has long been one for joking and exasperation.

But I'm not going to defend our sex here; in fact, I'll admit the truth that in general we're not as astute and efficient in banking ways as men are. What I want to point out is that *our* opinion of banks should be important to the men who run them.

We're customers—just as much as men are—and while there are a great many things that women like about banks, there are just as many that we do *not* like. And that is why I say our opinions are important—a woman will change her bank with the same simple reasoning with which she changes her account from one store to another. If she doesn't like it, regardless of its age, or record, or size, she just will not go there.

Now women may not be as financial-minded as men, but we have enough sense to realize that taking our business away is one way of getting even for a lack of appreciation of that business. We set as high an estimate on our accounts as men do—and we expect other people to do the same. Where a man might be annoyed and grumble about some real or imaginary slight in his bank, he'll probably forget about it. Women are more vindictive about it, because that is our defense.

For instance, attitude means a lot more to a woman than it does to a man. Naturally, a bank is a place of business, but there is sometimes an air of cold formality around the bank that doesn't at all appeal to a woman. The employees do more to bear out or relieve this attitude than marble pillars and mahogany desks. Women are much more sensitive to this attitude, or atmosphere, or whatever you choose to call it, than men are. Once I went with a woman to a bank, when such an attitude resulted in her breaking into tears. Being nervous and high-strung anyway, she was disinterestedly sent from a busy teller to an indifferent officer, who in turn sent her to another department—and it was simply too much.

I hasten to agree that this was an extreme case and that all women don't react to inconsideration by crying. No—they're much too cold-blooded about retribution. Women stick together, and when one offended woman customer talks about a bank, in hopes of turning her friends against it too, it often works out that she succeeds. In the episode I spoke of, I happen to know that it cost the bank at least three customers.

It wasn't discourtesy, you understand, nor incivility, but just an "I can't be bothered" attitude. And it could have been so different with a few minutes of helpful explanation.

But I'm afraid that I have been a bit ominous up to this point. There is a much brighter side to a woman's feelings—and a much more loyal side. If you treat women in what they consider the right way, they will do just as much toward boosting your stock to their friends as they will for running it down. Once you get a woman enthusiastic about a bank, she'll talk about it as much as though she had found a wonderful new dress shop. At least, you'll have to admit that we are constant in our trait of paying back for the way we are treated.

CHEERFULNESS, COURTESY . . .

WE don't expect outlandish services, or lace curtains on the windows. And—in spite of many bankers' opinions to the contrary—we really do listen to reasons and explanations about the functions and rules of a bank. That is, provided an officer doesn't climb up on a lofty height and begin talking down to our mentality.

Cheerfulness, courtesy, interest, recognition and friendliness are all we want—and none of these is going to add to a bank's overhead. We find them in almost every department store, dress shop, beauty parlor and grocery store where we trade; we have grown to expect them from any place of business.

All that I have talked about so far has been subjective, psychological, and rather intangible. I can hear certain bankers saying, if they read this, "What am I supposed to do—turn my bank into a social club to please women?" All right—this is amateur hour. You stick to your bonds, and loans and interest rates, and I'll give you a few definite suggestions about other things women like in their banks.

Convenience is one of the most important reasons for a woman to choose her bank. Many times, of course, she has no choice in the matter—if her husband makes her use his bank—but quite often she prevails upon him to give her a bank of her own. The day a woman has her money all ready to deposit, and a city-full of banks from which to choose, is the day when your bank is going to stand or fall on the strength of how often it has emphasized its convenient location in its advertising and how often it has extended little services to her as a non-customer.

CONVENIENCES, RECOGNITION

THIS convenience takes other forms, besides the actual location of the bank. Women want a room of their own that is easily found in the bank—without having to ask a dozen people—and one that is comparable to those in the better stores and theaters. We like a bank with a comfortable waiting room—where we can smoke, if we want, without feeling conspicuous. Give us a waiting room with rugs on the floor and furniture that makes us feel at home.

Nothing makes a woman feel better than to be recognized and called by name, when she steps up to the teller's window. To have her face and name remembered—or her voice placed on the telephone—is the nicest kind of a compliment to pay a woman customer. Personal recognition can go further toward warming a woman's heart and building good feeling for the bank than anything I know.

And speaking of teller's windows—why is it that there is never adequate space at one to park packages or pocketbooks while depositing or withdrawing money? The least a woman has to carry is a large purse, and, more likely than not, she has bundles besides. If there were only a platform or wide railing of some kind so that she could place these things beside the window, it would make it so much more convenient for her. Even the men ought to appreciate this

to relieve themselves of a brief case or parcels.

If our bank is a very modern, expensive-looking institution, we expect to have checks that carry out the impression of quality that the building, the bank's position, and the service charges we pay imply.

Of course, all the modern machines for handling customers' deposits and withdrawals are part of the service women expect, too. I'm particularly proud of the photographing machine which my bank has for insuring the permanent record of every check I use. I can think back to any number of instances where I have mentioned this to other women, and I have a friend who was saved paying a bill twice, after she had destroyed the original check, by having the bank bring out the photograph of the check to prove her contention that she *had* paid the bill.

INSTRUCTIONS ON DISPLAY

ONE more suggestion, before I stop—realizing that I have rushed in where none but the foolhardy dare to lift their voices: I don't know of one woman, in all my acquaintance, who understands all of the different rules about depositing and withdrawing money. It seems to me that printed instructions, written simply, should be placed on all of the counters where deposit slips and checks are made out. An intelligent woman I know was unaware that she could withdraw money from her account without her check book, until her husband happened to tell her about counter checks. And there is nothing that humiliates and angers a woman more quickly than being made to feel foolish or dumb. The waiting in line before a teller's window, only to find out that the check hasn't been endorsed properly, or to be told to see one of the officers about it, is very annoying to most of us—especially if there are other people near enough to witness our mistake.

In mentioning all of these things, I have tried to express in general some of the most common reasons for women liking or disliking a bank, to combine the opinions of a great many women with whom I talked on this subject. Some of the suggestions may not be feasible to certain banks in different sections of the country. Some may seem unimportant to the men who dictate a bank's policies. But these matters are *not* unimportant to women who transact business with a bank. For, I can tell you, women certainly like the idea of having a bank of their own—they want to be proud of their bank's attitude toward them—and they want to feel that the bank is actually doing something to show its appreciation of their business.

GOLD

Vincent Auriol, Finance Minister in the new French cabinet, took office at a critical time in the franc's struggle against gold withdrawals

Bond Market Behavior

(Continued from page 15)

carried yields on long terms to new lows, but yields on short terms did not go to new lows.

It would be impossible to predict whether this closing of the gap and this failure of short terms to establish new low yields is a trend which will continue steadily in the future but certainly such a possibility has to be taken into the reckoning by followers of the bond market. The gap which has prevailed during the past two and a half years has been abnormally great, and for this very reason many students of the money market believe that in the future the abnormality will tend to be corrected.

As a final consideration under the heading "money market factors", attention may be drawn to a seasonal theory which has received some vogue in recent years. In the third quarter of 1934 and again in the third quarter of 1935, the market for governments underwent a severe correction. While these Autumn corrections were in process, bids faded away and it was difficult to market sizeable blocks of securities. The psychological situation was alarming and the bond market was shrouded in gloom. Those who hold to the seasonal theory contend that large institutional investors feel extreme caution as they approach the Autumn. They are particularly uncertain about the next Congress and about the next fiscal policies of the Administration. Consequently, so it is argued, they pile up cash during the Autumn and wait for a clearing of the air. They are not fully reassured until along about February when they enjoy an opportunity to study the annual budget message of the President and to size up the new session of Congress. By that time, accumulated cash has begun to burn holes in their pockets and they have resumed activity on the buying side of the market. In both 1934 and 1935 this buying wave carried prices on long term governments to new highs.

WAITING FOR 1936

EXPONENTS of this seasonal theory expect to see similar developments some time during the second half of 1936. They admit that the seasonal precedent of only two years is not a sufficiently broad precedent to establish any clear case for their theory, and they also admit that they cannot point to any specific forces which will cause history of the last two years to repeat itself in 1936. Nevertheless, they believe that a government bond market which has advanced almost steadily for nine months is vulnerable to a correction. Like all theories, this seasonal theory depends for its effectiveness in the market upon the number of people who believe in it. There is no way of determining how widely the theory is actually held, but undoubtedly it is a factor of no small importance and it leads many potential buyers of governments to assume that they will have an opportunity later in the year to buy governments somewhat cheaper than they can at present.

The above discussion of money market factors has dealt almost entirely with governments but, as stated at the outset, under present conditions the government market furnishes the leadership for other classes of high grade obligations. What is true of fluctuations in governments is likely to be true, in a slightly varying degree, of high grade corporate bonds and of high grade municipals. There is, however, one important peculiarity which should be noted in the case of high grade corporate bonds. During the past year there has been a great deal of refunding. By May of 1936 it became apparent that the volume of refunding had been so great and the yield basis had been so low that the corporate bond market had run into a period of temporary indigestion. This caused a slowing up of offerings, but observers now begin to feel that the period of indigestion is over and that a further wave of refundings is in store.

There are sharp differences of opinion in underwriting circles as to whether underwriters have overdone the attempt to float refunding offerings at extremely low rates. Critics of the terms of recent offerings point out that yields on highest grade corporates are actually less than corporation tax equivalent yields on governments. In this discrepancy they find reason for arguing that, to the institutional buyer, governments are cheaper than corporates. They express doubt as to whether this discrepancy can continue indefinitely, and they wonder whether the discrepancy may not be corrected by a tightening of yields on corporates. The matter is presented here merely as a statement of a point of view and not, in any sense, as a prediction.

Having discussed the money market factors, we may now turn more briefly to the second heading, namely, "demand factors".

It is a well known fact that during the past two or three years the demand for credit and the demand for new capital has been at very low ebb. Ordinarily, in a period of business recovery this demand is satisfied by new commercial borrowings and by security issues, not merely for refunding purposes, but to supply new capital requirements. The extremely low state of demand is highly abnormal and there is a tendency on the part of many people to assume that this condition will prevail indefinitely.

Any such assumption is open to very serious question. As business recovery makes further progress, it is reasonable to assume that a more normal condition of demand will develop. It may not appear during the next six months but it almost certainly will appear over the next few years. At the present moment no one can be sure of the exact factors which will bring about this turn toward normal demand, but it is extremely unrealistic to assume that the present low state of demand will continue throughout the recovery cycle.

OVERSUPPLY AS A FACTOR

IN analyzing the outlook for the bond market there is a tendency to place too much stress on the side of oversupply in the form of excess reserves, and too little tendency to recognize the increased demand of the future. When a major turn in interest rates comes, it will probably come from the side of demand rather than from the side of a cutting down of oversupply in the form of excess reserves.

The third group of factors is international in scope. Under this heading it is first of all to be noted that money rates in London are materially tighter than they were 12 to 18 months ago. The best evidence is the fact that British Consols are selling nine points below their high of last year. It is too early to say definitely that this indicates a reversal of the cheap money cycle in Great Britain, but it strongly suggests that such may be the case. If that turns out to be the true interpretation, it would be logical to presume that with a lag of a year or two the same change of trend would take place in the New York market.

Another international influence to which the New York money market is highly sensitive is the danger of war. For several years past the Autumn of the year has witnessed a serious war scare. There is no specific basis for

predicting such a war scare this Autumn, but one cannot overlook the danger that strained relations between Italy and Great Britain, or between other major powers, would cause a new outbreak of nervousness and anxiety.

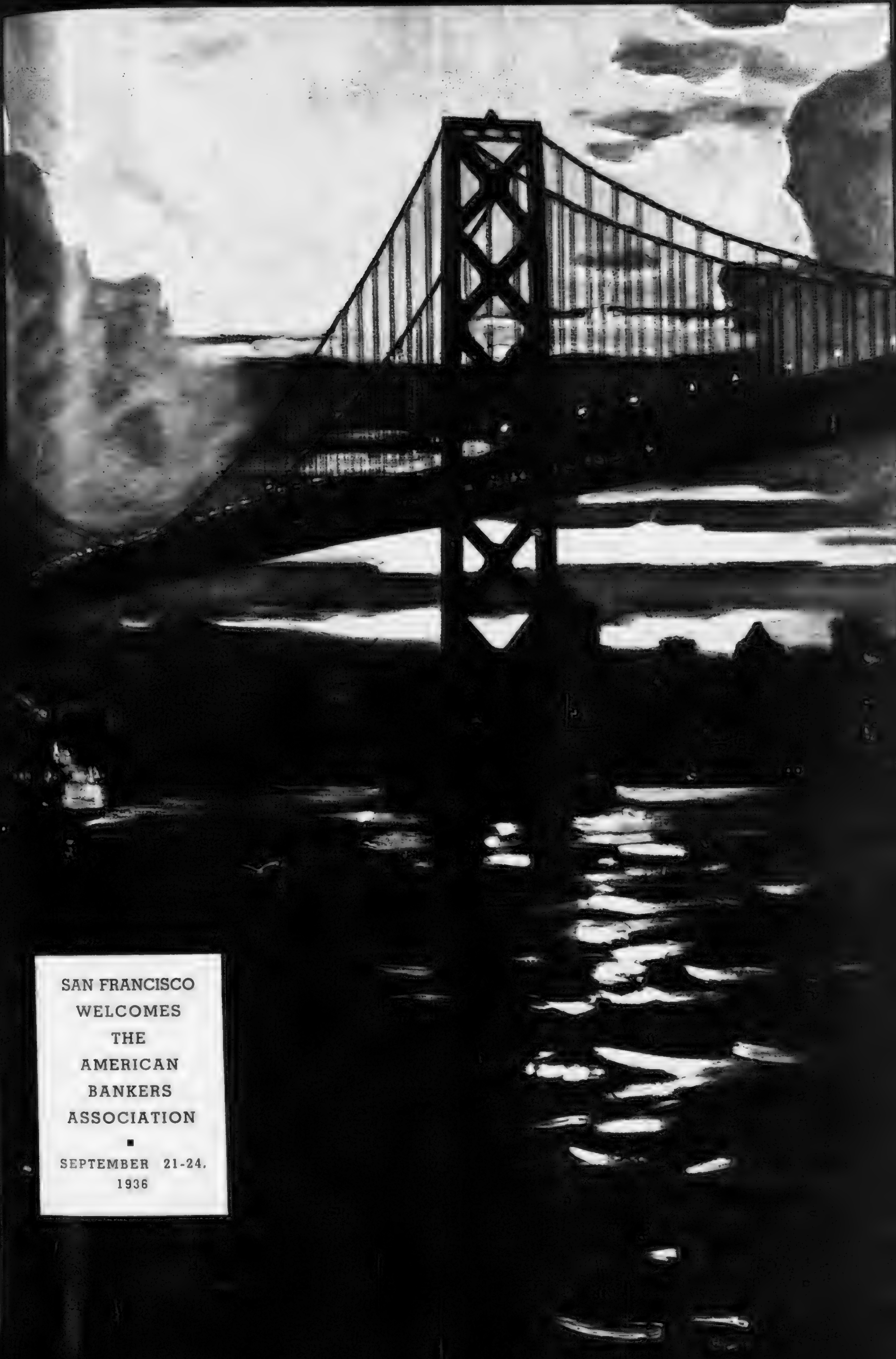
CREDIT RISK BONDS

THE foregoing discussion deals with favorable and unfavorable factors bearing upon the outlook for money rate bonds. In addition, consideration must be given to credit risk bonds. There are two classifications, domestic and foreign. The domestic bonds are primarily governed by the outlook for recovery. The sharply rising curve of electricity output and the improved level of railroad traffic, both present and prospective, lend emphasis to the favorable side of the outlook for the majority of bonds in these classifications. In the industrial classification it may be observed that business has held at a favorable level during the second quarter of the year and there is reasonable expectation of a satisfactory level of business during the second half of the year. Moreover, from a slightly longer term standpoint, it is to be recognized that the United States is now in the midst of a major recovery cycle and, until signs are available that this recovery cycle has exhausted itself, the outlook for industrial bonds should not be viewed with too great pessimism. These remarks apply to the groups as a whole and it has, of course, to be recognized that there are individual exceptions.

With regard to foreign bonds, the present period is characterized by such great currency unsettlement and by such great uncertainty on the subject of war possibilities that more than ordinary risk is involved on the part of the holder of the majority of foreign obligations.

A POINT TO REMEMBER

THIS discussion is not intended to serve as a forecast as to what will happen in the bond market, but by listing and weighing some of the favorable and unfavorable factors governing the outlook, the discussion affords the basis for a careful study of the investment policy of the individual institution. The most important point to bear in mind is the sharp contrast between supply and demand as factors to watch for signals of any major reversal of the cheap money cycle. Practically everyone is obsessed with the notion that oversupply is the cause of cheap money. They make the mistake of ignoring the fact that the almost complete lack of demand is a much more fundamental cause.


SAN FRANCISCO
WELCOMES
THE
AMERICAN
BANKERS
ASSOCIATION
SEPTEMBER 21-24,
1936

San Francisco, Oakland and San Francisco Bay, with the Golden Gate in the distance. In the center, to the right of the Bay Bridge and below the Golden Gate Bridge, is the artist's conception of the World Exposition to be held here in 1939, construction of which is now under way.

The 17th Green, Lincoln Public Golf Course. In the distance is the 4200 foot Golden Gate Bridge with its 750-foot towers. In San Francisco this fall you can see this world's largest span being completed. On the first page is a painting of one of the spans of the $8\frac{1}{4}$-mile San Francisco-Oakland Bridge to be opened to traffic in

San Francisco, Oakland and San Francisco Bay, with ... is the artist's conception of the ...
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The 17th Green, Lincoln Public Golf Course. In the distance is the 4200 foot Golden Gate Bridge with its 750 foot towers. In San Francisco this fall you can see this world's largest span being completed. On the first page is a painting of one of the spans of the 8¼-mile San Francisco-Oakland Bridge to be opened to traffic in November.


FOR NEW EXPERIENCES—
COME TO SAN FRANCISCO IN SEPTEMBER
Golf along the Golden Gate . . . The spritely sidewalk flower stands . . . Tiny cable cars, with seats outside, that climb to hilltop views . . . The long Embarcadero with ships and men from all the seas . . . The largest Chinatown outside of China . . . Old Mission Dolores, founded by the Spanish in 1776 . . . World-famed restaurants . . . The new Bridges, the biggest in the world . . . A summer climate that is pleasantly cool . . . And a thousand other invitations to enjoyment.
We hope that you will find in this many-sided city the tradition of good living, hospitably held out to you, so that you will always remember San Francisco and the American Bankers Association Convention of 1936.
62ND ANNUAL CONVENTION
San Francisco, California, September 21-24, 1936
San Francisco—Warm in Winter, Cool in Summer
NOODLES

To the man who decides what his bank

SHALL BE:

IF you could read the minds of the men and women who hurry past your windows, what would you find?

Some of the impressions of your bank would be flattering...some would be unjust. Your bank's future —and the future of our entire banking system—may depend in large degree on the composite banking views of the American public five and ten years from now.

Every element that can be used constructively to make those views sound and friendly is in order. One of the most obvious opportunities to create good will —so obvious that many banks have overlooked it—is to use letterheads, checks, passbooks, and other stationery, of appropriate character and quality. This is less a matter of price, than of experienced professional planning, good taste, and the type of lithography and engraving which characterize the leaders in the industry.

In other words, stationery is no mere commodity: it is a commodity transformed by a service into a tangible builder of public good will.

This advertisement is sponsored in the interests of better relations between banks and public by

THE INSTITUTE OF
BANK STATIONERS
120 WALL STREET, NEW YORK

The "Other Loans" Barometer

A MATTER of $100,000,000 more or less on either side of the ledger means very little under ordinary conditions in measuring the loan position of the country's banks, unless it persists long enough to indicate a trend. The fact that total loans of reporting member banks in the Reserve System during the first quarter of the current year have been running around $125,000,000 above those of the corresponding dates of a year ago does indicate a trend, and that trend is of special importance in that the increase is especially notable in the significant class of "other loans".

Perhaps of more significance is the fact that all banks in the Federal Deposit Insurance System, embracing 98 per cent of all commercial banks in the country, had total loans outstanding at the end of December of $14,697,208,000, as compared with $14,602,317,000 a year earlier.

The increase—$94,891,000—is nothing to cause any great excitement except for the fact that the record shows the first year-end improvement in outstanding loans of all the banks since 1929, and the partial record of member banks shows that this improvement is continuing.

WRITE-OFFS MAY BE HIGH

WHEN the record of earnings and expenses of the banks for last year becomes available in a few weeks it will probably be found that the year-end and current increase in outstanding loans has been achieved in the face of considerable although greatly reduced write-offs of old scores.

Both year-end and current reports indicate that Government securities continue to dominate bank credit, but the fact that all the banks, as represented by the insured institutions, increased their investments in miscellaneous securities in 1935 by $155,000,000 and those in state and municipal securities by approximately a quarter of a billion dollars also is a matter of no little significance.

Is it too much to assume that the tide in American bank credit has turned and an increase in outstanding loans and more general investments of the banks may hereafter be anticipated as a matter of course?

PROTECTION

Capt. Albert B. Moore has been appointed head of the New York State Bureau of Investigation, the "Scotland Yard" of the state's police force

WIDE WORLD

Upturn in the Southwest

By FRED C. CROWELL

THE impression seems to exist, particularly in the East, that Missouri, Kansas, Oklahoma and the rest of the great Southwest country has seen its best days, economically speaking, and that country banks are having a hard time creating sufficient earnings with which to continue operation.

True, country banks in the agricultural areas have been hard pressed and it has taken courage and good management to carry on. But are these conditions still prevalent in this country that has in the past known such fluent prosperity? The answer is "*No*."

The writer has just returned from a trip through this territory, talking with bankers all along the line.

Here are some actual comments made by country bankers. Said a banker in Cameron, Missouri: "This territory has the best crop prospects in years. Conditions are greatly improved; prices for farm products are better than for a long time—a fact gratifying both to the farmers and to the bankers. Since the March 4 call, our loans have increased 33 per cent." For the most part these have been loans to farmers and reflect the increased confidence of the country banker in the ability of the farmer to come back into his own.

KANSAS PROSPECTS

IN Pittsburg, Kansas, a banker said: "Crops in Crawford county at this time look very good. Wheat seems to be better than expected. Oats are good. We will have a bumper corn crop if we get normal moisture in July and August. Our loans have increased some 16 per cent in the past three months."

An Independence, Kansas, banker asserted: "The crop prospects in Montgomery county are the best in years. We are for the first time in years having a steady demand for loans for the purchase of real estate, livestock and automobiles."

Substantial gains in bills receivable were reported by the banks of Mangum, Oklahoma. One bank has increased its loans 46 per cent in three months.

Norman, Oklahoma, banks show increases in loans all the way up to 39 per cent.

These are the conditions existing in the Southwest today as contrasted with an absence of any demand for credit a year ago. Banking institutions in that section are beginning to see their earnings start on a definite upward swing.

But this "better business" in the country is also reflected in the earnings of the city banks with which the country banks do business. Although few indeed are the country banks that have reached the point where they are rediscounting paper with their correspondents or with their Federal Reserve bank, their loan activity has manifested itself in many indirect ways in the cities. The banks of Kansas City on June 15 showed an average increase of 10 per cent in their bills receivable.

The real reasons for increased activity and more prosperous banking conditions in the Southwest are: first, the encouraging crop conditions and, second, the growing willingness of country bankers to get out of their banks and go after good loans.

It was also found that deposits in most banks were much higher than they were on March 4.

1929 and 1936—A Comparison

DEPOSITS in the average bank in this country at the present time are probably as large if not larger than those of the average bank in 1929, although total bank deposits are still considerably below the total in 1929.

On December 31 adjusted demand deposits amounted to $18,801,000,000 and time deposits to $10,041,000,000, or a total of $28,842,000,000 in the round figures of the Reserve report. On December 31, 1929—the high mark of all year-end reports—member banks held adjusted demand deposits of $16,600,000,000 and time deposits of $12,900,000,000, a total of $29,500,000,000.

Inasmuch as there was an increase of nearly $300,000,000 in adjusted deposits in reporting member banks in the first two months of 1936 it is anticipated that, when the drafts upon deposits for tax payments and the Government's March financing are returned, the member banks will have reached the high point of their record of December 1929.

Between the two periods, however, there is a vast difference from a banking standpoint. In 1929, 56 per cent of the adjusted deposits were demand deposits; in 1935 the proportion was 65 per cent. In December 1929, member bank loans were $26,150,061,000, investments in United States securities $3,862,968,000 and in other securities $5,920,921,000, or total investments of $9,783,889,000. On December 31, 1935, the member banks had loans of $12,175,000,000 and investments of $17,810,000,000, of which $12,269,000,000 were direct or indirect obligations of the United States.

In 1929, 78.2 per cent of the total assets of the banks were invested, much the larger part in profitable loans. In 1935 only 67.9 per cent of their total assets were invested, more than half in Government securities, largely of an unprofitable character. So strong was the demand for money at the end of 1929 that the member banks in the Reserve System had only $48,319,000 in reserves above requirements and had borrowed $755,000,000 from the Reserve banks. At the end of December 1935, member bank borrowings were nominal and the banks had reserves of $2,983,000,000 in excess of legal requirements.

RESERVE BOARD

Chester C. Davis, former A.A.A. Administrator, has been nominated by the President to the Federal Reserve Board, as representative of agriculture, for an eight-year term


KEYSTONE

For the first time

Corporate Fiduciaries may now obtain COMPLETE liability protection

Indemnity Insurance Company of North America fills a long-felt want with two new policies designed to exactly meet the bank's own specifications

THE law holds that *the trustee*, and not the estate, is responsible for liability claims for bodily injuries originating on properties under its fiduciary control. Inadequacy of the insurance forms heretofore available has often resulted in serious losses to fiduciaries.

To meet this urgent banking need, the Indemnity Insurance Company of North America now makes available two new policies . . . *designed in accordance with specifications laid down by bankers and trust officers* . . . that make possible, for the first time, protection for corporate fiduciaries *against every conceivable liability*. The Insurance Committee of the California Bankers Association has endorsed these policies as meeting their exact published specifications.

These radically different and long-needed policies . . . the Fiduciaries' Master Liability Policy and the Fiduciaries' Comprehensive Liability Policy . . . are *available only in the Indemnity Insurance Company of North America*. Ask your broker or agent about them . . . or write the Company at 1600 Arch Street, Philadelphia, Pa.

Indemnity Insurance Company of North America

PHILADELPHIA

Our unique experience and proportionately larger volume of bank insurance offer definite advantages to banks in the writing of bankers' blanket bonds and other forms of bank insurance.

The Care of Correspondent Accounts

LET'S call the bank the Downtown National and locate it in a medium-sized city. Ten years ago it had virtually no correspondent business. Today, thanks to initiative and service—especially service—the Downtown is the nucleus of what is really a mutual banking system.

The start was made when a new president took charge. He has succeeded in this particular field because he has always taken great pains—too great, some banks may say—to make the interests of a correspondent his own.

One of his first prospects had a clearing problem. For about six months of the year it had a large float in the eastern part of the state, and found difficulty effecting clearances without incurring charges for drafts against uncollected funds.

The Downtown's president took this account on trial. He instructed his staff that when the bank's deposits came in they were to be broken down by size of item. Checks and drafts under $500 were to be cleared through routine Federal Reserve channels while those above that figure were to be handled direct. This was the procedure the Downtown used with its own clearings, and the president believed the country bank had not had an opportunity to make use of it. From his examination of the bank's statement of the previous month he was reasonably sure that all its clearings, large and small, had been through the Federal Reserve.

The end of the first month proved that his theory was correct. Far from being an expense item, the country account looked like a profitable piece of business and the Downtown credited it with $48 interest on the average uncollected balance. Naturally, the account stayed. Others were obtained; they stayed, too. Each of these correspondent customers was told that every department of the Downtown was to be considered as part of its own bank, and the president made good on this promise.

CORRESPONDENTS' INVESTMENTS

ONE of the valuable services rendered by the Downtown was in connection with the investments of its correspondents.

"We never had a bond department that sold securities," explains the president, "but we have always had an investment analysis department. We urged our country banks to make use of these facilities. They were a little hesitant at first, but one day a rural banker brought in his list of holdings. We didn't send back a perfunctory letter analyzing his position. Any number of banks will do that, so we went a step further. We had the list gone over and then commissioned one of our men to take it personally to the customer with an explanation of our suggestions.

"Gradually we were able to get most of the other banks to let us do the same for them. That was back in 1927 and 1928 when many banks were loading up with second grade issues.

"But our customers didn't. Their portfolios showed losses, of course, in 1932 but they were caught with very few defaults and as the bond market recovered they were in strong positions.

"Sending our own men into the coun-

try, at our expense and perhaps for several days at a time, cost us a good deal.

"But on the whole I doubt whether it cost any more than would a group of new business solicitors. Also, the cooperation we have given our country correspondents has helped keep the banking structure in this part of the country in splendid condition, and that, in turn, has saved us money."

ADVERTISING SERVICE

THE Downtown has also built up an advertising service for its country accounts. Copy to fit each bank's needs is drawn up after extensive conferences with the executives. Sometimes press releases have been written at the Downtown and sent to the rural bank for distribution to its local paper.

"This service costs us money, too," the president says. "Of course, it raises something of a problem because, while we want to give it to desirable accounts, we don't want institutions to come here and open accounts just for the sake of getting our service. It isn't bait; rather, it is in the nature of appreciation for their being the kind of bank with which we want to do business."

PERSONNEL ASSISTANCE

PERHAPS the most valuable service performed by the Downtown for its correspondents is in the personnel field.

It has sent a score or more of young men to become junior officers in country institutions which are its customers.

"No doubt," admits the president, "it's carrying our theory of correspondent service a little far to suggest that our correspondents can come in here and take our boys home with them. And yet, to a degree, that is what we let them do. We always have several men who were employed with the definite idea that sooner or later they would be passed on to some country bank. After a few years in such an institution many of them will be better timber for us and we can take them back, as additions to our official family are needed.

"In fact, several men have gone out and returned during the last few years. But that is really only a broadening of our notion that a city bank should make the country correspondent's problems its own, for in reverse this implies that the rural institutions should lend a hand with the city bank's problems.

A BANKING COMMUNITY

"IN effect, country correspondents make the urban bank the center of a banking community, the size of which is limited only by the extent of territory that can be efficiently served."

JOHN FARNHAM

D. OF C. BANKERS

Karl W. Corby, the new president of the District of Columbia Bankers Association, is a partner in W. B. Hibbs & Co.

The Money Machine

When the bank president saw the notice of withdrawal he checked up on the account. It belonged to a steel worker who, over a period of years, had accumulated a savings fund of more than $5,000; he now wanted to take out all but a few hundred. The banker invited him in.

"What do you want this money for, John?" queried the president.

"The most wonderful machine, Mr. Stewart!" John explained. "It makes money—good money. I see it make money with my own eyes. And it cost only $5,000."

Nothing Stewart could say shook the prospective purchaser's faith in his miraculous gadget. He had seen the money made, and had even spent some of it. Readily he agreed to bring the present owner of the machine to the bank.

A few days later he returned to say that the seller had been obliged to leave town for a little while. Almost in tears, he pleaded that the bank waive its withdrawal regulations so that he might buy the wonderful machine the moment the inventor returned. When Stewart pointed out that no one would sell at that price a contraption that could produce unlimited thousands, John was taken somewhat aback. Within a few days, however, he was in the bank again, smiling broadly. He handed Stewart a hundred dollars in crisp money.

"See!" he exclaimed. "I make this myself last night. Good money, huh? I put in old newspapers, turn handle, and this comes out. Day after tomorrow I buy machine. Then I make more money, put it in bank. Good for both of us, huh?"

There was only one thing left for the president to do. By careful questioning he learned that the inventor of the machine would accompany the depositor when the money was paid by the bank, and a telephone call conveyed this information to police headquarters.

In due time John and his friend appeared for their cash. The detectives caught the prearranged signal, but in making the arrest outside the door they collared the wrong man. The inventor fled while John, protesting vigorously, was taken to the police station, his $5,000 still in his pocket. Unfortunately for him, Stewart was away from the bank on business and not until evening was the prisoner able to reach him for the necessary identification and release.

The sight of the inventor fleeing from the law had a salutary effect on John and the next morning he redeposited his money. Nothing was said about the entire matter until several months later when he brought in a friend who wanted to open an account.

"This Mr. Stewart, he's very good banker," said John in making the introduction. "He keep your money safe. Only be careful—when you try to take it out he have you arrested!"

No More H.O.L.C. Loans

Refunding of distressed mortgages by the Home Owners' Loan Corporation ended at midnight on June 12, in accordance with provisions of the Home Owners' Loan Act of 1933. No more loans are to be made by the corporation.

Up to May 28, the corporation had closed 1,016,142 loans throughout the country and its territories for a total of $3,081,893,559. Virtually every eligible application for relief received, an announcement said, was completed as a loan. Original past-due mortgages of the borrowers were taken up by the corporation through exchange of its bonds with the mortgage holders.

To some 290,000 borrowers, the arrival of June 13 meant that they would be required to make monthly payments of principal and interest on their loans, instead of interest only. Their mortgages were made in the early months of the corporation's work, before Congress repealed the part of the act which allowed borrowers an optional moratorium on principal payments until June 13, 1936. These borrowers will have twelve years in which to pay off their loans.

Loans made to the remaining 726,000 borrowers extend over a 15-year term and are repayable at the rate of $7.91 monthly per $1,000 of loan, including principal and interest at 5 per cent.

The peak of lending activity by the corporation was reached in the last half of 1934 when 381,341 loans were made. As lending tapered off in 1935, the H.O.L.C. developed its liquidation organization to which the majority of its employees have been gradually transferred. This agency is responsible for the billing and collection of 1,000,000 monthly instalment accounts, for litigation and for the management and sale of such properties as the corporation must acquire to protect the Government's interest.

Suggestion for the Platform Makers

CARMACK IN THE CHRISTIAN SCIENCE MONITOR

Better Bank Insurance

(CONTINUED FROM PAGE 25)

phic, cable, radio or teletype instructions. Forged *acceptances* as distinguished from certifications are also specified. Forged or altered withdrawal orders or receipts for the withdrawal of funds are also covered without limitation to savings, thrift, interest or similar accounts.

3. Insuring Clause (B), which provides "on premises" coverage, and Insuring Clause (C), providing "in transit" coverage, are broadened to include loss of money or securities through "mysterious, unexplainable disappearance" as well as misplacement. Coverage against losses of subscription, conversion or deposit privileges through the *temporary misplacement* of interim certificates, warrants, rights or other securities has also been added to these clauses.

4. Under Insuring Clause (B), "property" of the insured bank within any recognized places of safe deposit or any banking institutions will be covered *wherever located* instead of limiting this coverage to apply only within the United States and the Dominion of Canada. Under the new bond, "property" on the premises of bank note or signature companies for the purpose of issuance, validation, exchange, conversion, endorsement or signature is specifically covered, also while the "property" is within the United States Treasury Department at Washington, United States sub-treasuries, mints and assay offices.

5. The transit coverage outside the United States and Canada, under Insuring Clause (C), has been extended to apply anywhere within the territorial limits of any country in which any office covered under the bond is located.

Mr. Baum

6. To the definition of "property" insured under the bond, "rights" have been added, also "mortgages upon real estate and/or upon chattels" and similar instruments. "Property" held as "pledgee" is covered as well as "property" held as bailee, trustee, custodian or agent.

MODIFICATIONS

7. THE exclusions listed under Section 2 have been modified as follows:

(b) Losses of "property" in transit resulting from riot or civil commotion will not be excluded "if at the time such transit began *the person initiating such transit* had no knowledge of such riot or civil commotion." Under the wording of this exclusion in the old form, knowledge of any officer or employee is attributable broadly to the bank as "the Insured".

(d) Loans dishonestly or fraudulently made by an employee are to be covered without requiring the bank to prove "intent on the part of any Employee to defraud the Insured".

(f) After receipt of "property" not owned by the insured, the bank will be allowed the next *three business days* to examine and record or verify its nominal value and description. With the exception of checks for which one additional day is allowed under the old bond, "property" not owned by the Insured which is lost after the day of its receipt has not been covered unless the bank shall have examined the "property" and made a record thereof *prior* to loss. THE MODIFICATION OF THIS EXCLUSION MAKES UNNECESSARY AN ENDORSEMENT TO THE NO. 8-REVISED BOND TO COVER PROPERTY DEPOSITED IN NIGHT DEPOSITORY CHUTES, THUS ELIMINATING AN ANNUAL PREMIUM CHARGE OF $100 FOR EACH OFFICE MAINTAINING ONE OR MORE CHUTES.

(g) The exclusion of liability for losses arising out of fluctuations in foreign exchange resulting from dishonest manipulations will be eliminated, together with the exclusion (j) which disclaims liability for "property" destroyed while within any aircraft.

8. Section 5 concerning the valuation of property lost has been extended to provide for the valuation of loss of conversion privileges, loss of foreign currency, etc. Also the value of securities is to be determined by the "*closing market value*", instead of the "average market value", of such securities on the business day next preceding the discovery of loss.

9. The limitation in Section 6 of the time allowed banks to bring suit after learning of loss is extended from 12 to 15 months.

10. The language in Section 8 was changed to clarify the underwriters' intent of covering any number of separate losses not exceeding the amount of the bond which the insured may sustain through the acts or omissions of different persons or different events. In respect to losses in which any one person is implicated or caused by the same casualty, the underwriters' liability is limited to the amount of the bond as heretofore.

11. In providing for termination of the bond as to any employee upon the Insured learning of a dishonest or

Number of Employees	Annual Premium $25,000 Bond — *Form 2 Without Misplacement*	*Form 8 Revised Without Forgery*	Annual Premium $20,000 Bond — *Form 2 Without Misplacement*	*Form 8 Revised Without Forgery*	Annual Premium $15,000 Bond — *Form 2 Without Misplacement*	*Form 8 Revised Without Forgery*	Annual Premium $12,500 Bond — *Form 2 Without Misplacement*	*Form 8 Revised Without Forgery*	Annual Premium $10,000 Bond — *Form 2 Without Misplacement*	*Form 8 Revised Without Forgery*
6 or less	$610.00	$1067.00	$560.00	$ 980.00	$510.00	$892.00	$485.00	$848.00	$460.00	$805.00
7	620.00	1085.00	570.00	997.00	520.00	910.00				
8	630.00	1102.00	580.00	1015.00	530.00	927.00				
9	640.00	1120.00	590.00	1032.00	540.00	945.00				
10	650.00	1137.00	600.00	1050.00	550.00	962.00				
11	660.00	1155.00	610.00	1067.00						
12	670.00	1172.00	620.00	1085.00						
13	680.00	1190.00	630.00	1102.00						
14	690.00	1207.00	640.00	1120.00						
15	700.00	1225.00	650.00	1137.00						
16	710.00	1242.00								
17	720.00	1260.00								
18	730.00	1277.00								
19	740.00	1295.00								
20	750.00	1312.00								
21	756.00	1325.00								
22	762.00	1337.00								
23	769.00	1350.00								
24	775.00	1362.00								
25	781.25	1375.00								

New Bankers Blanket Bond Rates for Incorporated and Unincorporated Banks Having 25 or Less Employees

fraudulent act on the part of such employee, the new form provides that such termination shall be without prejudice to the loss of any "property" then in transit in the custody of such employee.

12. The surety companies also agreed to add coverage against loss by "DAMAGE" to the insured's premises, furnishings, fixtures, safes and vaults, resulting from burglary or robbery or attempt thereat, and also to include jewelry, gold, platinum, silver and other precious metals, precious and semi-precious stones, as coming within the meaning of "property." These two changes, however, must await amendments to the charter powers of surety companies incorporated in states other than New York.

REDUCTION IN BLANKET BOND RATES

WE do not anticipate any increase in premium rates charged for the improved coverage granted under the new No. 8-Revised Bond which should be available early in July. On the other hand, effective April 27 the surety companies' rating bureau eliminated the 10 per cent surcharge which was previously added in the computation for premiums of the No. 2 Blanket Bond when written in "baby" bond amounts, namely, $10,000, $12,500, $15,000 and $20,000. The No. 8-Revised Bond is likewise made available at reduced rates when issued in these smaller amounts. Also, instead of allowing no differential in premium charged banks having from 7 to 10 employees, 11 to 15 employees, 16 to 20 employees and 21 to 25 employees, the premium is now increased a small amount for each additional employee, in accordance with the schedule shown on page 66. The annual premium for forgery coverage under the No. 8-Revised Bond when written for banks having less than 26 employees is now 30 cents for each active checking account instead of 40 cents as previously charged. Also, the credit allowed in blanket bond premiums for underlying fidelity coverage was increased from $1.50 to $2.50 per $1,000 of fidelity insurance.

Assured banks are given the benefit of these reduced rates on fidelity and blanket bonds, (1) to extend the term of existing bonds to such further date as the premium credit computed pro rata will carry it, or (2) for the purchase of additional coverage, or (3) the credit may be set aside and applied to new bonds, increased bonds or additions to schedule bonds and any unused portion shall *at the end of the premium year* be used in part payment of the renewal premium or refunded to the bank.

The Rise of Credit Unions

By GEORGE E. ANDERSON

THE credit union situation in the United States may be summed up as 3,500 state-chartered unions with assets of $100,000,000 and 1,400 federally chartered institutions with assets of $4,500,000. The state-chartered institutions are increasing at the rate of over 400 a year, the federally chartered at the rate of about 100 a month.

State-chartered institutions have existed since 1909, having been introduced from Germany. In recent years their establishment has been furthered by an organization known as the Credit Union National Extension Bureau, which has been fathered and financed by Edward A. Filene of Boston as a philanthropic enterprise. Their chief support has come from large industrial and commercial organizations.

Federally chartered institutions are organized under the Federal Credit Union Act of 1934, which was sponsored by Senator Morris Sheppard of Texas, who introduced the first Federal legislation along the line of "cooperative banking" more than 20 years ago. Sponsors of these institutions claim that they in no way impinge upon the lending field of banks but, rather, that by inculcating thrift in a class of people who have little or no connection with banks, either as depositors or borrowers, they develop a sense of financial responsibility which in time reacts to the advantage of all sound financing and to the increased use of banks.

The original and principal object of the organization of these unions was to benefit the large class of improvident people or others of small means who are faced with emergencies. This class of people has always existed, exists now and probably always will exist and their number and connections are inconceivable to any one who has not investigated the situation. They exist predominantly among the employees of large institutions, great commercial houses, the large industries and even in the departments of the state and national governments. They have always been the victims of the "high raters" among money lenders—the class of lenders who lend five dollars on Monday and collect six dollars on Saturday payday. The number of such operators working in the departments of the Federal Government in the past has been astonishing.

It was because of abuses of this sort and the great drain upon employee earnings that the large business concerns have favored the organization of the credit unions. Among the chief supporters of the system are the great oil companies, packing houses, steel companies and, in short, all large employers of labor of low to medium salary classes. One large packing concern reports just under 100 credit unions among its employees scattered all over the country, with 22,332 members, $1,014,617 assets and total loans to date of $5,331,254. Employees of another packing concern have organized substantially the same number of unions, which had assets of $982,132 at the end of last year, 84 per cent of which were out on loan. Several of the large oil companies have unions at practically all their principal plants. A considerable number of large banks, especially in the western and central western states, report unions among their employees. The Treasury Department has several, the Federal Reserve Board's employees one, the employees of the F.D.I.C. another, while other departments report one or more and others are being organized constantly, especially among some of the new units of the Administration.

There are various forms of credit unions in matters of detail, but in general their type of organization is indicated by the Federal system. Membership in each union is limited to persons having a common bond of occupation or association and to groups within a well defined neighborhood, community or rural district—farm groups, store employees, church and fraternal organizations, office employees, factory employees—any group, in short, which has enough cohesion and common interest to cooperate successfully and with more or less common knowledge of the character and credit of its membership. Such a group of not less than seven persons organizes by electing a board of directors of not less than five persons, a credit committee of not less than three persons, and a supervisory committee of not less than three persons, not more

Official Opinion

THE May issue of *Cooperative Saving*, published by the Farm Credit Administration, describes the rise of the cooperative movement in a certain community. Of the people living there the pamphlet says that "they will have no difficulty in appreciating the worth of cooperation applied to finance, particularly when they have an example of its practical working in their midst. Their new credit union should be an immediate success and should be followed by others in due time in the same general area. Here and elsewhere cooperatives and credit unions naturally go hand-in-hand".

In the same issue, C. R. Orchard, director of the Credit Union Section, compares credit unions and other types of thrift agencies. He says:

"In the first place, it must be remembered that the collected savings of the millions of the wage earners are not necessarily applied to useful and constructive enterprises. They may go to finance foreign wars. They may be used to initiate and support a great array of peace-time projects of which the best that can be said is that they are useless or not too obviously vicious and antisocial. In the second place, these savings when collected may flow into larger and larger channels and be carried far from their place of origin, to finance perhaps undertakings in regions of the earth of which most of the workers supplying them have never even heard. When the wage earner gives over his dollar to the usual agencies he feels assured only that he can recall it when he wants it. Whether or not it is doing useful or destructive work in the meantime, or where it is working, are the deepest of mysteries to him."

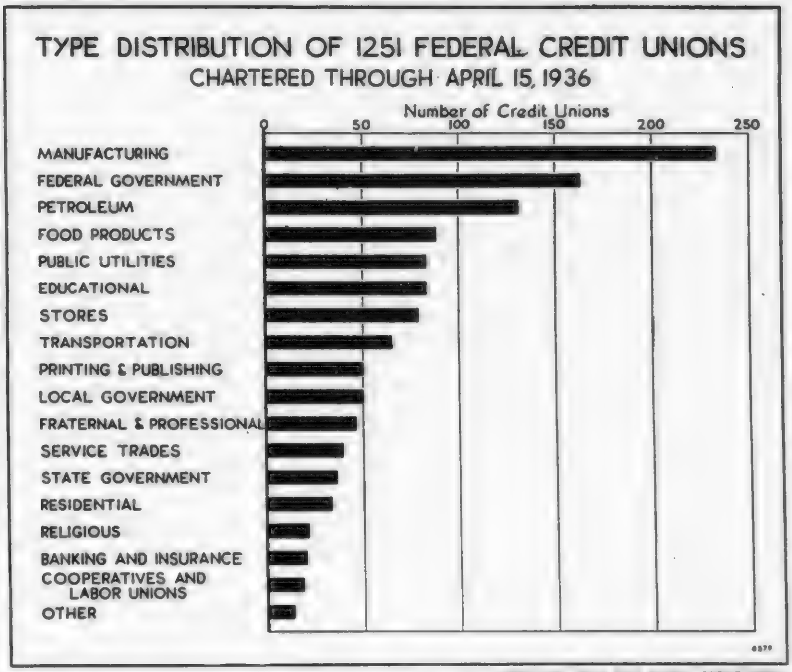
than one of whom may be a director. The directors choose from their own membership a president, vice-president, clerk and a treasurer. The two latter offices may be combined. The treasurer or clerk-treasurer must be bonded. Each member of the union has one vote in these elections and only one, no matter how many shares he may hold.

Each member of a union pays an entrance fee of 25 cents and must subscribe to at least one share of $5. He may take as many more shares as he desires. From the funds thus secured loans are made to the members. Loans up to $50 may be made without collateral security; above that amount adequate collateral is required. The loans are made "for provident or productive purposes" in any amount up to $200 or 10 per cent of the unimpaired capital of the union, whichever is greater. Entrance fees and fines are placed in a reserve fund which also receives 20 per cent of the net earnings annually.

Interest on loans must not exceed 1 per cent a month on unpaid balances, including all charges, and no commission is collected. The 1 per cent a month on unpaid balances works out at a maximum of $5.50 for $100 for 10 months, $6.50 for 12 months, $10.50 for 20 months and $12.50 for 24 months. Funds of the unions must be deposited in banks whose deposits are insured by the F.D.I.C. Surplus funds may be invested in obligations of the Federal Government, direct or guaranteed. Once a year a dividend is declared, 6 per cent having been fixed as a maximum for the present in the federally chartered unions, with the idea of building up reserves and eventually lowering rates of interest.

The average loan made by the federally chartered unions is approximately $62. No complete data are available as to the state-chartered institutions as a whole, but so far as information goes it indicates practically the same average in these institutions. In some groups, especially among the 100 or so unions operating in farm communities, the average is believed to be somewhat higher.

Purposes for which loans are sought vary with time and place but, as a typical distribution, the experience of a union organized in a Government department in Washington is cited. Of the first 173 loans granted, 30 were for the consolidation of outstanding debts, 25 for medical expenses, 20 for vacations, 14 to assist relatives, 14 for education, 13 for personal expenses, 12 for insurance, eight for household expenses, six each for taxes, furniture and clothing, five each for automobiles and Christmas, four to pay outstanding notes, two each for marriage and moving, and one for fuel. A considerable and increasing proportion of the loans is to cover the purchase of household and electric equipment and other goods which otherwise would be bought on the instalment plan at greatly increased cost.



F.C.A.'S COOPERATIVE SAVING WITH FEDERAL CREDIT UNIONS

RELATIONS WITH BANKS

NATURALLY, the relations of these credit institutions with the banks vary with the union, the community, the banks and particular needs of members at the time. Some of the older unions borrow material sums from the banks. All of them are depositors in banks. Judging by the cash balances of typical concerns it seems probable that the unions as a whole deposit about as much as they borrow—apparently from $10,000,000 to $12,000,000 at any one time. To some extent the unions compete with the personal finance companies operating under the so-called "uniform small loan act" in 27 states but, in the opinion of union enthusiasts, even this competition is not very serious.

State-chartered unions undoubtedly compete to some extent with banks in small communities which have always made small loans more or less as a matter of accommodation to customers, if for no other reason. The Federal authorities, however, are not chartering unions where service similar to what they offer can be had from local banks.

That the unions serve a useful purpose in freeing a large class of people from the clutches of usurious money lenders is beyond question and that the service they afford is of social and financial benefit has been amply proved to large employers of labor best in a position to judge of results. So far, operation of the federally chartered concerns has been largely experimental, but there is every indication that their organization and development will be along the lines of the state-chartered unions.

It is a rather notable fact that while both in this and other countries the credit unions were first started in rural communities and for the benefit of farmers, their greatest development has been in industrial and commercial centers. Pennsylvania and New York are by a wide margin the leading states in the number of organizations. Texas, California, Florida, Connecticut, the District of Columbia, New Jersey, Indiana and Massachusetts in the order named comprise the rest of the leading ten. There are state credit union laws in 38 states and the District of Columbia. Federally chartered unions have been organized in every state except New Hampshire and Alabama.

It is apparent that this movement has assumed large proportions and will long be a factor in our credit system.

Building and Loan Ancestry

The June issue of BANKING contained a brief historical sketch of the British building society and the American building and loan association. The following article, material for which was obtained from the United States Building and Loan League, brings out main differences of practice and organization between the two.

THE building and loan associations in this country were direct descendants of the English building societies, the idea having been first put into operation here about 50 years after it had been inaugurated in Birmingham, England. As was pointed out in BANKING for June, the pioneer association in the United States was based largely on the memories which two Englishmen in the manufacturing business at Frankford, Pennsylvania, had of the working of building societies in their native land.

Because of varying conditions in the two countries, however, some differences in practice appeared and have since continued. On the other hand, the principle of making long term mortgage loans with provision for monthly repayment of the principal as well as interest, has characterized the institutions in both countries and must be named as the fundamental characteristic of such an organization.

The American building and loan associations, with the exception of those in Ohio, have clung to the original idea of making every investor a shareholder or stockholder in the association. The British societies, on the other hand, have two classes of investors: the stockholders or shareholders, and another group of depositors.

Holdings of the latter are, of course, creditor liabilities of the society and a smaller return is paid on these deposits than upon the holdings of stock which are in an ownership relation to the institution.

The Building Societies Act authorizes a permanent society in Great Britain to have two-thirds of the amount invested in mortgages in the form of such creditor obligations.

Another divergence of practice between the American institutions and their English counterparts is in the general matter of liquidity. The American association has always stressed the long term nature of the investment which the shareholder makes in the association, and while it was common practice up to the depression to repurchase without notice the shareholdings of an investor, the cash position of the associations has not normally been sufficient to justify such a policy in bad times as well as in good.

The English building society operates more nearly like a savings bank in this country, keeping a considerable part of its assets in cash and making definite provision to give the investor his money when he asks for it. There is a tendency on the part of many American institutions today to adopt a position more nearly resembling the British on this point.

One other difference between the institutions in the two countries lies in the matter of supervision. In the United States the associations are supervised by 48 different state authorities and for the past three years there has been a growing number of associations operating under Federal supervision. The tendency both in state laws and in the supervisory body centered in the Federal Home Loan Bank Board at Washington has been toward stricter requirements.

All societies in Great Britain are under the supervision of the Registrar of Friendly Societies and in general, as in the English banking system, there has been an entire absence of any attempt to control the policies of the institutions.

Smith on Bank Service

To the Editor:

THE symposium on bank service for the Smiths, which appeared in the June issue, was informative but incomplete. Your authors, directly or indirectly, talked about the Smiths, around the Smiths and to the Smiths, but nobody spoke *for* them. Can the polls be reopened to receive a friendly postscript on their behalf?

This contributor happens to be a Smith, which is merely another way of saying that he is a layman, not a banker. His training in banking has been acquired exclusively from the lobby side of the teller's cage. He hardly considers himself qualified to discuss bank economics, cost analysis or service charges. He tries to understand them.

He has never been a particularly articulate Smith. When his bank (the possessive pronoun is quite unself-conscious) announced recently in a form letter that he would henceforth be expected to maintain a minimum balance of $500 in his personal checking account or pay a $2 monthly service fee, he unprotestingly accepted the accompanying explanation, familiar enough to bankers, and made the necessary deposit. He felt that his checkbook was an indispensable convenience.

To be truthful, he had some misgivings as to whether he could or should spare the percentage of his total capital which the sum thus to be impounded would represent; and he must admit reminding himself that during the dozen years of his contact with the bank he had kept his account in order—that is, he thought it had been in order, for there had never been a debit memo, protested item, or whatever other name is applied to acts of commission and omission on the part of bank depositors. Also, he recalled that only a few years ago banks were apparently bidding for his business; at least, he had received a letter or two from another bank offering him its facilities.

SMITHS UNDERSTAND EARNINGS

THIS Smith tries to be a reasonable person. In this instance he did not believe that by raising the ante the bank was endeavoring to expedite his detachment from its ledgers, and he trusted that it was not consciously penalizing comparative penury. If, as the letter said, his account could not be profitably carried on a balance of less than $500, then the bank knew what it was talking about. None of the Smiths expects the telephone company, for example, to take a loss on the service it sells him, nor the grocer on the family potatoes, not the merchant on his topcoat. As small stockholders in too small lists of representative corporations, we know something about earnings and their importance to the capitalistic system.

Frankly, bank earnings—their source and distribution—have always been rather mysterious to the Smith who is now speaking for the family. Presumably, however, they emanate from operations, and operations include the Smith account. No doubt the bank had accurate data as to how much it was earning on his tiny contribution to the big pool of total deposits.

As has been mentioned, this spokesman for the Smiths regards his checking account as essential. He uses it, needless to say, to pay household bills, taxes,

insurance and other recurring expense items. He writes only a few checks each month, but he feels he cannot dispense with the convenience they afford.

The Smiths are a large family in the banking world. We are the small depositors, and we don't resent the term for we are fully conscious of our limitations. We like to think that you appreciate our business, and we believe —most of us do, anyway—that we appreciate you. We go through life paying our own ways, glad that we can and trusting that we shall long be permitted to. If we do not understand banking, the fault is not ours; we shall never understand it as well as you do, and there is no reason why we should. But we do understand the principles of sound business, and we shall respect and trust the banking system for living up to them.

Treat us fairly, and we shall stand by you.

John Landon

Losses on Used Cars

THE effect of over-allowances for used cars on profits of automobile dealers is brought out in a report published by the *Bulletin* of the National Automobile Dealers Association.

Based on figures submitted by 931 representative dealers who handle all makes in all sections of the country, the report states that, although these agents earned an aggregate net profit of $3,008,855 from all retail departments in 1935, there was an aggregate net loss of $1,731,874 for the year on their combined new and used car operations.

The dealers paid out $4,278,271 more for second-hand cars than the vehicles brought on resale, the article says, and in addition there were other substantial costs. Used car losses amounted to $75.14 per new car sold, while combined new and used car selling expenses exceeded total gross margins, resulting in an average final net loss of $8.59 per new unit sold. This figure compares with $17.62 in 1933 and $17.87 in 1934.

"The 40 per cent increase in units sold," the report states, "did not suffice to bring dealers to the 'break-even' point on retail new and used car combined sales. True, it reduced the loss from $17.62 per new car to $8.59 per new car, but this is apt to be misleading without considering all factors. The $17.62 per new car was on 157 new units; the $8.59 was on 216 new cars. Hence with sales in 1935 140 per cent of 1933 in units, the reporting dealers' average net loss still holds at 67 per cent of 1933 in actual dollars total."

The association takes the stand that the condition is beyond the control of the dealers and can be remedied by the manufacturers individually through correction of certain policies that stress volume to the exclusion of new car profit for the dealer. Continuing, the report says that whereas volume for the manufacturer may cover only new vehicles, for the dealer it represents a much greater quantity of used cars which he cannot avoid handling. Dealers' investment in these automobiles is placed at approximately 250 per cent of the actual sum of the discount available to them in the sale of new cars.

A further analysis of the conditions prevailing in the dealers' business and of the causes affecting their profit-earning ability is to be made by the Automobile Dealers Research Foundation, formed jointly by the American Finance Conference and the association. Recommendations for correction of unsound practices will be made after a careful study of all the facts.

Two Old-Fashioned Stories

These two dated stories are an interesting exhibit of the changes wrought by several years in the public's attitude toward banks

Apples in the Lobby

SATURDAY noon in the Autumn of 1932 came none too quickly for one fair-sized bank in an agricultural community. All through the week there had been a slow drain as jittery depositors withdrew their funds. Another bank in town had been forced to close.

The president of the surviving institution decided to spend the weekend in the country, but not to rest for the ordeal which he knew was coming. Leaving town Saturday afternoon he went from farm to farm talking to the people, reassuring them of the basic soundness of the community's banks, and buying apples. By Sunday noon he had arranged for delivery to his bank, by 8 o'clock Monday morning, of several hundred barrels of them.

When the bank opened, the apples were piled in the lobby. Several large signs, strategically placed, told of agriculture's importance in the business life of the community and called attention to the excellence of local farm products.

The customers who awaited the opening gaped with astonishment when they entered and read the placards. The president went from person to person, repeating the message he had carried through the countryside. He said nothing about the bank or the unsettled local conditions. He spoke to everyone, and to everyone he gave apples.

The bank had plenty of money that day, thanks partly to a shipment from the Federal Reserve bank, and withdrawals were the lightest in months. Indeed, when the bank closed, the books showed an actual increase in deposits.

The president chuckles as he recalls the experience.

"I won't say I never want to see another apple again, but for several weeks I didn't want to eat one," he laughs. "I learned early that morning that people rather liked to see me munching an apple; it started them munching, too. So I ate dozens of 'em.

"The fruit, and the impression that we were giving a little demonstration of the district's agricultural resources took everybody's mind from the possibility of a closing. The folks, I think, reasoned in one of several ways, if they thought much about it at all. No bank, the average person assumed, would be putting on a show if it was at all concerned about withdrawals. Furthermore, a depositor would feel pretty small to withdraw any money after he'd been given several fine apples. And then, too, there was a physical as well as a psychological factor. I loaded everybody so heavily with apples that it was just about impossible for the people to get at their passbooks!"

Public Education

THE bank president, an elderly man, came to the bank early one morning in 1932. A bank in a neighboring town had closed and he feared there might be some trouble.

Pushing through the crowd that had already gathered at the door and speaking cheerfully to his acquaintances, he paused at the door of the bank and spoke to the depositors.

"Well," he said, "you folks seem to be in a hurry to do business today. I'll see how the boys inside are fixed and maybe we can open a little early for you."

Then he entered the building. Inside, the president went to his safe deposit box, took out two large bundles of Liberty bonds, returned to the lobby and ordered the doors opened. The people swarmed in, clustering at the tellers' windows.

The president climbed on a desk. "Friends," he called, "it's still a few minutes to opening time and I wish you'd hear what I have to say. Will you?"

There were murmurs of disapproval from the crowd, but the president continued to speak. He pointed out how the town needed a bank, how local business would be handicapped if his institution closed. He said frankly that people had been withdrawing money, but he stressed the soundness of the institution and explained why the depositors would have only themselves to blame if the bank had to stop payments.

"We're perfectly willing," he announced, "to pay out money for the ordinary conduct of business and to depositors who need it for living expenses. But it isn't right, nor fair to our loyal depositors, to pay out money just because some folks are scared. Why, you should be a hundred times more frightened to take your money away from this safe place.

"But I'm not asking you to leave it here just because I advise it. I'm asking you to do it for your own good. Here"—he held up two bundles of Liberties—"is one million dollars in Liberty bonds. They belong to me and there isn't a cent borrowed on them. Now, I'm going to guarantee every penny of every deposit you have in this bank. In addition to the bank's resources, here is my personal guaranty. All I want is your word that you'll only withdraw enough money for your ordinary needs. Do I get it?"

The crowd was unconvinced. One or two voices spoke up, demanding their money.

The president repeated his story and asked for the depositors' cooperation.

"Pay us now; we want our money," came the replies.

"All right," he said. "The bank is now closed. In fairness to the loyal depositors we will not open this morning. The state banking department will take charge and you can take matters up with its representatives when they get here."

The crowd dispersed.

Since that morning the bank has paid all its obligations in full, but equally important is the fact that the citizens of the town have learned a lesson.

R.F.C.

Emil Schram, of Illinois, has been nominated to fill an unexpired two-year term on the Reconstruction Finance Corporation Board

U. & U.

New Instruments of Credit Policy

(CONTINUED FROM PAGE 21)

Through this legislation a new and hitherto untried instrument of bank of issue policy has been created. Some such instrument was essential, for gold revaluation, gold imports, and issues of silver certificates have created, and are still creating, a volume of bank reserves quite unmanageable by the ordinary methods of control. Excess reserves have recently been considerably larger than all the Government security holdings of the Reserve banks. These entire Government holdings could be sold without absorbing all the excess reserves. The problem is this: the bank of issue must have a sponge big enough to absorb all the excess reserves before it can gain any real control over credit. If excess reserves were to continue to increase as rapidly as in 1934 and 1935, on top of present reserves, they might easily reach an amount even larger than could be controlled by a 100 per cent reserve increase plus a complete sale of Government securities, especially if the Treasury should put to use any considerable amount of the Stabilization Fund.

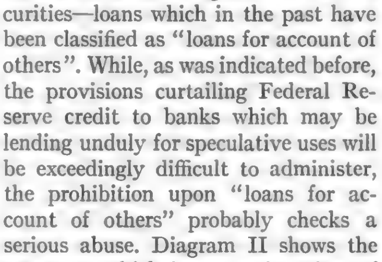
But, there is also a question in management. The surplus of reserves is not distributed evenly among the banks of the country—some banks have more excess, some less; a few have none. When reserve requirements are increased some banks will be hit much harder than others. It will be difficult to raise reserve requirements high enough to mop up a substantial part of the excess reserves without embarrassing some banks, though the number of such banks is small. Despite these limitations the power is a most useful addition to the System's mechanism for credit control, especially as a means for dealing fundamentally with the large excess of reserves created by the extraordinary events of the depression emergency.

LOANS ON SECURITIES

ECONOMIC fluctuations in this country have frequently been accentuated by security speculation. This was especially true in the expansion of 1928 and 1929 and the subsequent depression. The ills of that period may perhaps be laid more specifically to security speculation than to any other single cause, though this distinction might be disputed by speculation in real estate. It was natural that when the causes of the depression were examined and the remedies sought, they should include means for checking security speculation. The proposals finally embodied in law are contained principally in three acts—the Banking Act of 1933, the Securities Act of 1933, and the Securities Exchange Act of 1934.

The Banking Act of 1933 made two principal approaches to the problem. First, it divorced the business of handling new issues of securities, except for Government and municipal issues, from the banks of the country, both by forbidding the banks to underwrite such issues and by divorcing from the banks their security affiliates. Second, it placed certain restrictions on the availability of credit for carrying securities. Several sections of the act, as noted earlier, empower the Reserve Board and banks to curtail the use of Federal Reserve credit by banks which in the judgment of Federal Reserve officials may be making credit too freely available for security speculation. The act also prohibits member banks from acting as agents of corporations and individuals in the making of loans on securities—loans which in the past have been classified as "loans for account of others". While, as was indicated before, the provisions curtailing Federal Reserve credit to banks which may be lending unduly for speculative uses will be exceedingly difficult to administer, the prohibition upon "loans for account of others" probably checks a serious abuse. Diagram II shows the extent to which increases in prices of equity securities in the boom years of 1928 and 1929 were supported by these loans. Their existence constituted a major impediment to the effectiveness of Federal Reserve policy in dealing with the expansion during this period. Member bank security loans, both to brokers and to private customers, were under reasonable control but these loans by others were quite out of control.

The Securities Act of 1933 was confined to dealing with a single problem,



A picture of member banks' current statistical position

that of new issues, and set up a mechanism by which new issues of securities, except for certain exempted classes which were already subject to the supervision of some Government agency, might be placed under regulation which would insure the disclosure of full information about each issue.

EXCHANGE PRACTICE

THE Securities Exchange Act of 1934 was directed toward the regulation of securities exchanges and was designed to avoid manipulation and other improper practices, to insure full disclosure of information as to securities dealt in, and, finally, to restrict the amount of credit used in carrying securities. The last of these three purposes was perhaps the most important, for excesses in the security markets have fed upon the use of credit. The stock exchange mechanism in this country has provided, perhaps, a freer use of credit for security speculation than exists in any other country. This free use of credit has encouraged the upward swing of prices in times of expansion, and, on the other hand, the calling of loans when prices decline has accentuated liquidation. Under the Securities Exchange Act the Board of Governors of the Federal Reserve System was given authority to "prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange." Because of the great influence of security speculation upon business movements in the United States, this new power given to the Reserve System constitutes an important additional instrument of control. It is a form of control which differs from most of the policy instruments of the System in the directness with which it is related to the specific uses of credit. It is a form of "direct action" but a form so defined and specific as to be much more practical and effective than any general attempt at direct action, such as has been discussed previously.

Under this provision of law the Reserve Board has drawn up regulations prescribing margins for brokers' loans to their customers, has set up an administrative office, and has arranged for periodic reports to keep itself informed. This procedure has been established without apparently serious interference with the normal legitimate operation of

the security markets. Similar regulations for bank security loans have also been issued. How effective this type of control is destined to be is, of course, as yet problematical. It is a form of control which is in some degree paternalistic and restrictive, but speculation in securities had proved itself so destructive of economic stability in this country that some vigorous form of control of this sort appeared to be necessary. The legislation has placed upon the Reserve System a responsibility which is likely to prove onerous, for the System will find itself at times required by circumstances to take action which will directly and immediately influence the profits and even solvency of considerable groups of people. But it seems safe to predict that, whether or not this particular form of control proves desirable and feasible, some mechanism will be found for restraining the excessive use of credit in security speculation.

DISTRIBUTION OF POWERS

BEFORE concluding this description of Federal Reserve powers for influencing credit it may be well to note the way in which these powers are distributed among the several parts of the Federal Reserve System. This distribution is shown at the bottom of page 21.

As noted earlier, coordination in the use of these powers is effected through joint conferences of the Board of Governors with the presidents of the Reserve banks, through the Open Market Committee, and through frequent informal contacts.

The possession of new powers under recent legislation has introduced a number of complications which should be noted in passing. When any one of the several policy forming bodies in the Federal Reserve System sits down to plan a course it now has to consider a larger number of alternative sorts of action. The difficulty is thus increased of obtaining wholehearted agreement on any single course of action. This question indeed goes beyond the interior mechanism of the Federal Reserve System, for every policy decision is in some sense political in the broadest meaning of the word. Like other public bodies the Federal Reserve System requires for full effectiveness of action the general sympathy and support of a substantial body of public opinion. The more alternative forms of action are available, the harder it is to be sure of public understanding and public support.

Another sort of complication arises from the nature of some of the new methods. The System's powers may be broadly classified into two general sorts: on the one hand, powers to deal with the whole credit situation, which include the discount rate, open market operations, and the adjustment of reserve requirements; and on the other hand, powers to deal with specific situations, which include direct dealing with individual banks (or "direct action") and the adjusting of margin requirements on security loans. The first of these two groups of powers is within the field of the traditional function of a bank of issue, which is to influence the volume and price of credit in general. The other group is more direct and more specific. Recent legislation has added new powers to each group, and in so doing has tended to complicate the question of whether wholesomeness of a credit situation can be restored by dealing with a few specific instances of abuse, or whether more general action is necessary.

These are not arguments against the new powers which have been given the Reserve System. They are simply a recognition of some of the problems which appear to be implicit in the broadening of powers. Broad powers are necessary to deal with the credit situation today.

I.B.A.'s Investment Studies

BANKING institutions can find informative and helpful comment in interim reports recently issued by committees of the Investment Bankers Association of America.

The Railroad Securities Committee has found that earnings prospects for the railways are distinctly brighter, and that a substantial improvement in credit for many of the important systems reflects the improvement in their situation.

The outlook for real estate in 1936, and inferentially for real estate securities, is the brightest it has been in several years, says the Association's Real Estate Securities Committee. Residential construction this year should about double last year's output, the committee estimates, adding that residential building was leading virtually every other line of industrial activity at the time the report was prepared.

A report by the Municipal Securities Committee takes note of current trends and influences in municipal finance, and urges the association membership "to encourage conservatism in the creation of new municipal indebtedness."

RAILROAD REPORT

THE Railroad Securities Committee observes that the gain in traffic volume which started last August has been maintained and that present carloadings furnish a basis for belief that some hesitation since January 1 may be merely a normal pause in the general upward trend. Blizzards and floods have distorted the record since the first of the year.

The committee finds that the common belief that rail traffic is permanently on a lower basis than before the depression may be challenged if recovery in the construction industry brings business to the roads to the extent anticipated by some.

In contrast to the favorable operating and earnings outlook, however, the committee notes little improvement in the relationship of the railroad industry with various governmental agencies which exercise power over its expenses and revenues and over its competition with other forms of transportation.

"It is true," states the report, "that the bill to regulate trucks and busses has been passed, and the Interstate Commerce Commission is now actively engaged in measures to carry out the Act." On the other hand, the Committee notes that the bill to regulate water carriers and the measure permitting railroads to compete in rates with unregulated transportation agencies had not yet been passed.

"In addition," continues the committee, "the decision of the Commission in connection with the passenger rates of the eastern roads has serious unfavorable implications. The problem is distinctly one of management, namely of merchandising passenger travel so as to obtain the most satisfactory results. . . .

"The whole future of regulation, not only in regard to railroads but in regard to all regulated industry, would seem to depend upon a proper segregation of the sphere of regulation from the sphere of management. It is to be hoped that a court decision on the Commission's order for a reduction in passenger fares may lead to a clarification of this difficult problem."

REAL ESTATE

THE Committee on Real Estate Securities obtained reports of definite upturns in real property income from practically all sections of the country.

"Given an increase of from 10 per cent to 15 per cent in general business activity," it states, "the continuance of easy money and no material changes in real estate taxes, it is reasonable to expect further improvement in real estate values, especially moderately priced suburban residential property. Income from properties should increase, due both to higher unit rentals and greater occupancy. The greatest rise in income should take place in lower and medium priced apartments and homes. However, any substantial increase in real estate values will probably be checked by the large amount of distressed real estate still overhanging the market."

The improvement in income is attributed to increased occupancy and to slightly higher rentals. New York, Boston, Detroit, Chicago, St. Louis, Minneapolis and the Rocky Mountain district report a gain in both, but the betterment in Spokane and many other Pacific Northwest cities "appears to be due not so much to normal causes as to the activities of the various governmental agencies and to stimulation by the Grand Coulee and Bonneville Dam projects." Real estate income in California has shown definite improvement due to higher occupancy and moderately higher rentals.

Prices of real estate securities reflect the better situation. According to an index of 200 eastern issues the average price, which was $218 per $1,000 bond at the end of 1933, reached $408 in March 1936. New York issues advanced to $398, Philadelphia issues to $376, Boston to $572 and Pittsburgh to $287. Theater issues did best in this index, advancing to $619; office buildings at $466 were next; and housekeeping apartments third at $365.

An index of 42 Chicago real estate bonds, picked at random from selected issues, the committee reports, rose from a low of $194 in February 1933 to $398 in March of this year, while an index of 50 Pacific Coast bonds showed an average price of $538 on March 1 last compared with $367 at the end of 1934. This index rose 6.1 per cent during the first two months of 1936.

"Generally speaking," the report says, "there have been no important real estate offerings in the country during the past year, activity being largely confined to securities that are emerging from reorganization."

MUNICIPAL FINANCE

THE Municipal Securities Committee finds that little has happened in the last few months which had material effect on municipal securities, although Congress had under consideration several bills that would affect the various states and subdivisions.

"Activities of the Federal Government and some of its agencies continue to be dominant factors," the committee finds. "Federal loans are still being made in large volume to municipalities and other political subdivisions for various purposes. Interest rates remain low and money for investment continues to seek profitable employment. Apparently there is nothing to indicate a decided change in this situation in the near future."

The scarcity of new municipal issues, the report says, may reflect a tendency to be conservative in the assumption of new indebtedness. Tax collections have improved steadily and there have been few new defaults; meanwhile, many defaults have been or are being cleared up.

New Books

The People's Money

PUBLIC FINANCE. By Harley L. Lutz. D. Appleton-Century Company, 1936. 940 pages. $4. (Third edition.)

SEVEN years have passed since the previous edition of this book by the professor of public finance at Princeton University. A world depression has brought what amounts in some instances to a revolution in the fiscal affairs of governments, and entire peoples have been made acutely conscious of the problems confronting the field in which Dr. Lutz is a specialist.

The events of this interval necessitated a virtual rewriting of the text, and it now appears almost as a new book, particularly in the parts which discuss the public finances of the United States and its subdivisions. Realistic and constructively critical, the book presents a complicated subject clearly and forcefully, thereby contributing to the attainment of democracy's elusive goal—an intelligent control of the public purse.

One of the important changes in the new volume is a new chapter on the control of public expenditures, wherein the author outlines a program for the correction of present maladjustments, particularly with regard to state and local governments. The effects of public expenditures are also considered in a new chapter, and there is a comprehensive discussion of taxation—tax systems, tax administration and various forms of taxation, with their characteristics and some of the problems they create. Public credit and financial administration are covered in sections which have been completely reorganized.

During the next few months the American people will hear a great deal about public finance. The citizen and taxpayer seeking a competent and authoritative survey of the subject will find this book a good guide, even if he does not read all of its 940 pages.

Taxation

INTRODUCTION TO FEDERAL TAXATION. By George T. Altman, C.P.A. Commerce Clearing House, Inc., Chicago, 1936. 166 pages. $1.75.

This book presents the fundamental principles of Federal taxation, as exemplified chiefly in the income tax.

Mr. Altman analyzes and coordinates all leading court decisions bearing on the field, special emphasis being placed on the findings of the Supreme Court with respect to tax statutes. The ground covered includes the constitutional basis and limitations of the income tax, classes of taxpayers and rate structures, accounting factors, gross income, deductions, capital gains and losses, reorganizations, special problems of estates and trusts, and administrative and general provisions. There is a final chapter on the capital stock, excess profits, gift and inheritance taxes.

"Many distortions in the Federal income tax statutes have resulted from political impatience with accounting truth," says Mr. Altman in his foreword, "and many distortions in judicial opinion have occurred during the long period of training in the subjects that the courts have required. But the Supreme Court has not studied the subject in vain, and it has been the author's earnest effort to correctly reflect the controlling law as laid down in the decisions of the Court."

16 to 1 in England

THE MONETARY PROBLEM: GOLD AND SILVER. Edited by Ralph Robey. Columbia University Press, New York, 1936. 369 pages. $3.50.

This is a reprint of the *Final Report* made to Parliament in 1888 by the British Royal Commission on Gold and Silver which inquired into "the recent changes in the relative values of the precious metals."

Out of print for many years, the *Report* is republished, with permission of the British Government, by the Carnegie Endowment for International Peace. It is a valuable contribution to monetary thought at the present time, for it is still one of the milestones in economics. The editor, Mr. Robey, instructor in banking at Columbia University, contributes an illuminating introduction to the book, and Nicholas Murray Butler, Columbia's president, writes a foreword.

The background of the *Report* is extensive, involving a number of controversies over the development of mone-

tary and credit policies in England. As Mr. Robey points out, the primary point of dispute in these matters in the United States during the last century was silver's part in the monetary system, whereas Britain's concerned credit policies.

"The part silver should play in the monetary system (of England)", he says, "was a major issue for less than two decades. It appeared in the middle Seventies, came to a climax in the testimony before the Royal Commission on Gold and Silver, and gradually disappeared as a question of immediate importance after the issuance of the *Report* of that Commission in 1888."

"The United States in recent years," states Mr. Robey, "has introduced and prosecuted a monetary policy which will continue to have an effect upon world economy for many decades. It is no longer of immediate moment whether it was the part of wisdom to adopt this policy. The important task now is to prepare ourselves for the best possible handling of our monetary system in the future. In the making of such preparation there is no single discussion in the field of economics more worthy of study than the *Final Report* of the Royal Commission on Gold and Silver."

Modern Economic Society

ECONOMIC PRINCIPLES, PROBLEMS AND POLICIES. By William Henry Kiekhofer. D. Appleton-Century Company, 1936. 955 pages. $5.

Dr. Kiekhofer, who is professor in economics in the University of Wisconsin, designed this book for the general reader as well as the student. It is an objective presentation which aims to be free from bias in stating the various sides of controversial matters.

The author considers the organization of modern economic society, how it functions, the laws that govern it, the problems raised by maladjustments, and policies evolved for making improvements. Beginning with the economics of production he takes up, successively, the exchange of goods, value and price, consumption and saving, and economic policies and politics. The last named section discusses the relationship between government and economic life, and considers various agencies of regulation and control. There is a final chapter on capitalism and plans for economic reconstruction, together with an examination of possible substitutes for the capitalistic system.

The book is written from the viewpoint that economics is the study of how man seeks and gets a livelihood. The material is carefully arranged, due regard being given to the practical as well as the theoretical, and the result is a well planned, clear, and comprehensive survey of how the world works.

Statement Analysis

HOW TO EVALUATE FINANCIAL STATEMENTS. By Alexander Wall. Harper & Brothers, 1936. 319 pages. $4.

One of the important features of this book is the background of the author. Mr. Wall, secretary and treasurer of the Robert Morris Associates, national organization of credit executives, has drawn upon his broad experience with credit problems to produce an authoritative discussion of critical and constructive methods of sound credit analysis.

The book takes up tested methods which the author has used successfully to ferret out faults in the financial structures of corporate borrowers. Following several chapters of general and specific discussion, he devotes half the volume to a consideration of case reports. There are 15 of these, drawn from current corporate practice and representing a wide variety of businesses. Each statement is analyzed in detail, with comment, thus bringing out the application of theories earlier presented.

The technique here presented for relating the production, investment and merchandising of a business in obtaining a complete appraisal of financial strength or weakness will interest all whose duties are concerned with making credit decisions.

Life Insurance Proceeds

MAKING THE BEST USE OF YOUR LIFE INSURANCE. By Guy B. Horton, Montpelier, Vermont, 1936. 169 pages.

Mr. Horton is a member of the legal department of the National Life Insurance Company, Montpelier. This helpful, practical book is one of a series he has written dealing with the distribution of insurance proceeds through trusts or insurance company settlements, the object being to discuss adequately both kinds of settlements and to show how losses and trouble to beneficiaries may be avoided.

The author began his work with deferred settlements of insurance 17 years ago. In that time, he recalls, such settlements by the insurance companies have had a rapid rise in popular favor and have been eclipsed by life insurance trusts "which in turn have fallen from grace." The two ways are now on the same plane, he says, "and can be judged on their merits." In his series Mr. Horton has treated each method, technically for lawyers and generally and popularly for insurance men and the public, in the books *Some Legal Aspects of Life Insurance Trusts* and *Handbook on Life Insurance Trusts*. Another volume discussed the insured's power to control his policy proceeds. The present work, completing the tetralogy, deals with practical phases of policy settlements, and it is written particularly from the viewpoint of the beneficiary.

The subject matter includes a comparison of settlements by trust and life companies, and factors that may determine the choice between the two services. There is an outline of settlement options and a review of problems in designating beneficiaries, as well as a discussion of how to make the best use of insurance proceeds and numerous practical suggestions designed to help the insured plan his estate. The book endeavors to impress on insurance men their duty to "look out for those innocent recipients of insurance who cannot help themselves."

Railroad Outlook

A study of the outlook for the earning power of Class I railroads, conducted by Young & Ottley, Inc., of New York, leads to a number of favorable conclusions from the standpoint of the investor whose capital is in securities of the American rail transportation industry.

The discussion is limited to an analysis of the leading factors that bear on the position of the investor. This in general is accomplished by comparisons revealing: the decline in operations from the carriers' relatively prosperous period, 1923–29 to 1932; the subsequent recovery and the outlook for future earnings.

Conclusions of the study are in part as follows:

1. Although commodity traffic is no longer doubling every decade, at least two-thirds of the nation's freight will continue to move by rail. The present low level of car loadings is due to natural depression causes, not to competition. The railroads should hold their own with all competitive transport agencies.

2. The roads suffered during the depression because of their dependence on durable goods, which normally supply half their traffic and which dropped 55 per cent from the high level of 1923–29. Any recovery of the heavy

industries to the average level of this interval would increase freight revenues substantially, probably as much as $500,000,000.

3. For the first time in years passenger traffic appears destined for a revival. Further modernization of service, together with lower rates, will bring back to the rails an increasing number of their competitors' passengers. It cost 25 per cent less on the average to travel by railroad in 1934 than by automobile.

4. With any marked expansion of traffic the railroads will find modern equipment an immediate necessity and its acquisition will contribute to still greater efficiency and economy in operations.

5. The advancing tax rate now absorbs more than 6 per cent of gross revenues annually. Additional levies are in prospect as a result of the Social Security Act and the pension bill. But higher taxes appear inevitable for all business, and with recovery of traffic the carriers should be able to carry their burden.

GOVERNMENT OWNERSHIP?

6. THERE is undoubtedly a danger of Government ownership because the trend of national policies may eventually force such action as the only possible solution for a complicated situation. However, the practical difficulties in such a step are vast and haste would be suicidal, both politically and economically. As business revives and rail earnings improve, the talk of Government ownership will probably diminish.

7. One of the most formidable difficulties in a Government ownership plan would be the status of the investor. Bondholders would undoubtedly have to be guaranteed against loss, and stockholders presumably would try to obtain break-up values based on the Government's own estimate of what the railroads are worth. Such a situation would harm the nation's economic life.

8. Compulsory consolidations on a wholesale basis appear highly remote, although voluntary mergers will doubtless continue.

9. Potential savings through refunding operations and reorganizations are necessarily limited by the credit status of the individual carriers. Refunding is not likely to reduce fixed charges markedly in the near future. Many necessary reorganizations must await the return of earnings to a point where they can support new securities at least equal to the par value of present obligations.

10. It seems inevitable that further restrictive legislation is coming. The growing tendency of special groups, particularly labor, to secure protection through special legislation is one of the most serious developments confronting the railroad investor. His only protection is to appraise continuously the significance of current events.

11. The roads are faced this year with the possibility of increased taxes, higher fuel and material costs, legislative uncertainties and additional charges due to compulsory pensions and social insurance. But operating efficiency has so improved that only a small gain in traffic would enable most carriers to report large gains in net earnings.

12. Based upon an increase of 8 per cent in industrial production throughout the country, revenue freight loadings and gross revenues should each advance 10 per cent this year. Allowing for increased costs, the railways in 1936, after payment of all charges, may be expected to show a net income of approximately $162,000,000 as against a bare coverage of fixed charges in 1935 and deficits of $17,000,000 in 1934, $6,000,000 in 1933 and $139,000,000 in 1932.

The Institute's Convention

Henry Verdelin, President of the American Institute of Banking for the year 1936–1937, is assistant vice-president of the First Service Corp., Minneapolis

HEADLINES on the 34th annual convention of the American Institute of Banking at Seattle, June 8–12:

1,500 BANKERS STUDY PROFESSION'S PROBLEMS

SEATTLE MAN FIRST IN SPEAKING CONTEST

BIRMINGHAM TEAM WINS A.I.B. NATIONAL DEBATE

ELECT VERDELIN, CURDA, TO INSTITUTE OFFICES

Obviously, headlines can hardly do justice to the first visit of the Institute to Seattle since 1909, for it is impossible to summarize in a few words the many activities that were crowded into five days. Preeminently, it was a convention of work, a sort of extension course in Institute studies, bringing together the ideas, experiences and achievements of hundreds of bankers from all parts of the country. The program covered virtually all phases of current banking problems, which were discussed and analyzed at the business and departmental meetings by Institute members and guest speakers.

The National Public speaking contest for the A. P. Giannini Educational Endowment Prizes brought first honors and a $500 prize to Frank C. Adams, The Bank of California N. A., Seattle. Other winners were: Cletus H. Froehle, First Bancredit Corporation, St. Paul, second prize, $300; John A. Eiseman, The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, third prize, $200; and Robert Mitzel, First National Bank & Trust Company, Hamilton, Ohio, fourth prize, $100. The topic was: "The Relationship of Bank Credit to Business Recovery."

The national convention debate brought together the chapter teams of San Francisco and Birmingham for a discussion of the question, "Resolved: That the Constitution Should Be Amended to Permit the Centralized Control of Industry." Birmingham, upholding the negative, won. Members of the southern team were: Robert B. Fore and Alton P. Parr, both of the First National Bank of Birmingham, and T. M. Reinhart (alternate), Birmingham Trust and Savings Company.

In the election, Henry Verdelin, assistant vice-president of the First Service Corporation, Minneapolis, was elected president of the Institute to succeed Maynard W. E. Park of the Kansas City Federal Reserve Bank. Frank R. Curda, assistant vice-president, City National Bank & Trust Company, Chicago, was chosen vice-president, the post held by Mr. Verdelin during the past year.

Those elected to the executive council were: Forrest C. Burchfield, Citizens State Savings Bank, Plainwell, Michigan; Lawrence C. Freer, The Chase National Bank, 240 Park Avenue branch, New York City; T. E. Graham, The First National Bank, Fort Worth; and Philip W. McEntee, Seattle-First National Bank, Spokane and Eastern Branch, Spokane, Washington.

Publicity exhibit awards were as follows: N. W. Ayer & Son cup (all chapters) to Philadelphia chapter; A.I.B. plaque (chapters with 500 or fewer members) to Fort Worth; certificates of merit (for chapter publications) to Joseph J. Schroeder, Chicago, editor, *The Bank Man* (larger chapter group); and William M. Dorr, Louisville, editor, *Twenty One* (smaller chapter group).

St. Paul is the 1937 convention city.

SPEECH

Frank C. Adams of The Bank of California, N. A., Seattle, won first place in the A. P. Giannini Public Speaking Contest. Mr. Adams is here shown receiving his prize of $500 from F. N. Shepherd, Executive Manager of the American Bankers Association

WIDE WORLD